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Touche, Ross, Bailey & Smart

The Quarterly

June
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The Quarterly

TOUCHE, ROSS, BAILEY & SMART (U.S.A.)

Volume 9, Number 2 June 1963

Firm policies and procedures on technical matters are stated in our technical manuals, bulletins and letters. The opinions expressed herein on technical subjects represent those of the authors and are not to be construed as setting forth new or amending present firm policies and procedures.

Organizing the firm for

THE THUNDERCLAP OF A JET PLANE breaking the sound barrier, the 18,000-mile-an-hour speed of a globe-girdling satellite, the scientific miracle of a Telstar projecting its multi-million image on global TV, the lightning calculations of an electronic computer and the automated factory run by a single man — all these are symbols of space age industry and the wonders it is working today.

But just as the stub-wing, eel-thin form of the jet plane is shaped by the aerodynamic forces it encounters in flight, so the pattern of business is molded by the deeds it performs. And in a like manner, the "look" of any profession that serves, advises or guides the management of business is determined by such a changing configuration.

This article is written to tell you, as a member of our firm, about the new "aerodynamic" configuration of Touche, Ross, Bailey & Smart and to describe the kind of organization we have evolved to help business steer a profitable course through an environment that constantly grows more diverse, complex and demanding.

This organization format includes techniques, principles and philosophies which have been developing in many offices of the firm since their inception. It expresses concepts we have always felt we should have and, to a greater or less degree, concepts that we have developed. Of major significance is the fact that we have now found a way to implement them.

Growth

Robert Beyer

Our Managing Partner, Robert Beyer, lives in New York, but he is a native of Wisconsin. When he graduated from the University of Wisconsin with B.A. and M.A. degrees in economics, he also received a Phi Beta Kappa fellowship for an extra year of study in budgetary control and production planning. In 1936 he joined Ernst & Ernst, leaving in 1947 to become executive vice president of Cleaver Brooks Company in Milwaukee. A year later he opened the Milwaukee office of TRB&S. He was admitted to partnership in 1950. As Chairman of the Management Services Committee of the firm, Mr. Beyer was primarily responsible for the creation and development of Profitability Accounting.

As many of us already realize, we have dedicated ourselves to making the full complement of integrated services available to all clients of each individual office. Moreover, our concept of integrated services not only requires that we should make these services available, but it also requires that we fulfill what we regard as an obligation — to point out where the client can benefit from any of our services adapted to his needs.

Obviously, to fulfill this obligation, each of us must understand the range of services offered. And since the scope of these services grows out of the inherent information link between management and accounting, each member of our firm should be prepared to discuss fluently the nature of management information functions and their place in the concept of what we have called "integrated services." It is to implement these objectives that the firm's present organization structure has been devised.

But before we describe its detailed provisions, let us take a closer look at what is meant by the term "integrated services" and see what lies behind it.

For some time, the term has been taken to mean total services—audit, tax and management services—with the added ingredient of coordination among the three. But today, a good deal more is involved.

For some time, competitive and technological pressures have relentlessly impelled business toward greater and greater growth, complexity and diversity, and management has been forced to devise faster, more efficient, and more highly coordinated information systems for the planning and control of operations. Its efforts have resulted in a unified communications network which for the first time puts managers in a position to capitalize on new developments in accounting, electronic data process-

ing and the management sciences, all three of which are now playing such a dynamic role in the creation of advanced business systems.

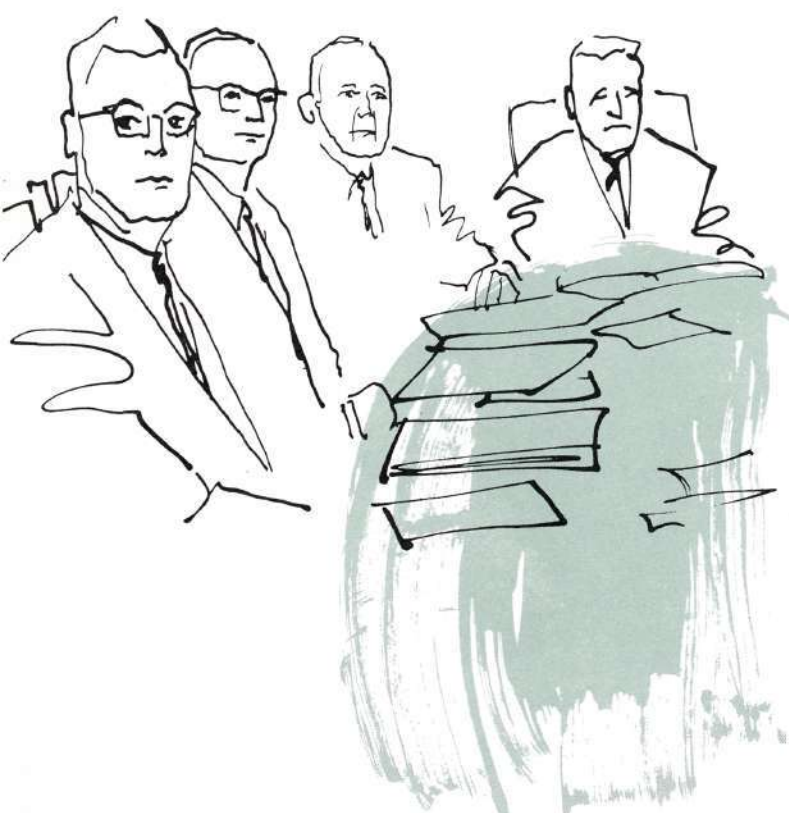
Faced with these new pressures, clients today are demanding far more than the traditional audit. They want the benefit of all the constructive management suggestions that can stem from the audit function. Consequently, we have taken these demands and cast them into an integrated program that allows the auditor, the tax specialist and the management services specialist to collaborate in setting up the system best adapted to each client's needs.

To attain the objective of total service on an integrated basis for each client, we have evolved an organization structure which embodies the relatively new concept of *general service partner.*

A *general service partner* is a "line" executive reporting to the *partner in charge* of an office. His experience background is such that he is able to deal in some depth with all three classes of service—audit, tax and management services—and he also has responsibility for the "added ingredient" of integration. He has primary and over-all responsibility for the firm's relationship with a client. He brings a business man's point of view to the client. He may provide consultation or services for his client from executives of any of the three client service departments, as well as the general service partner in charge of the integrated services department.

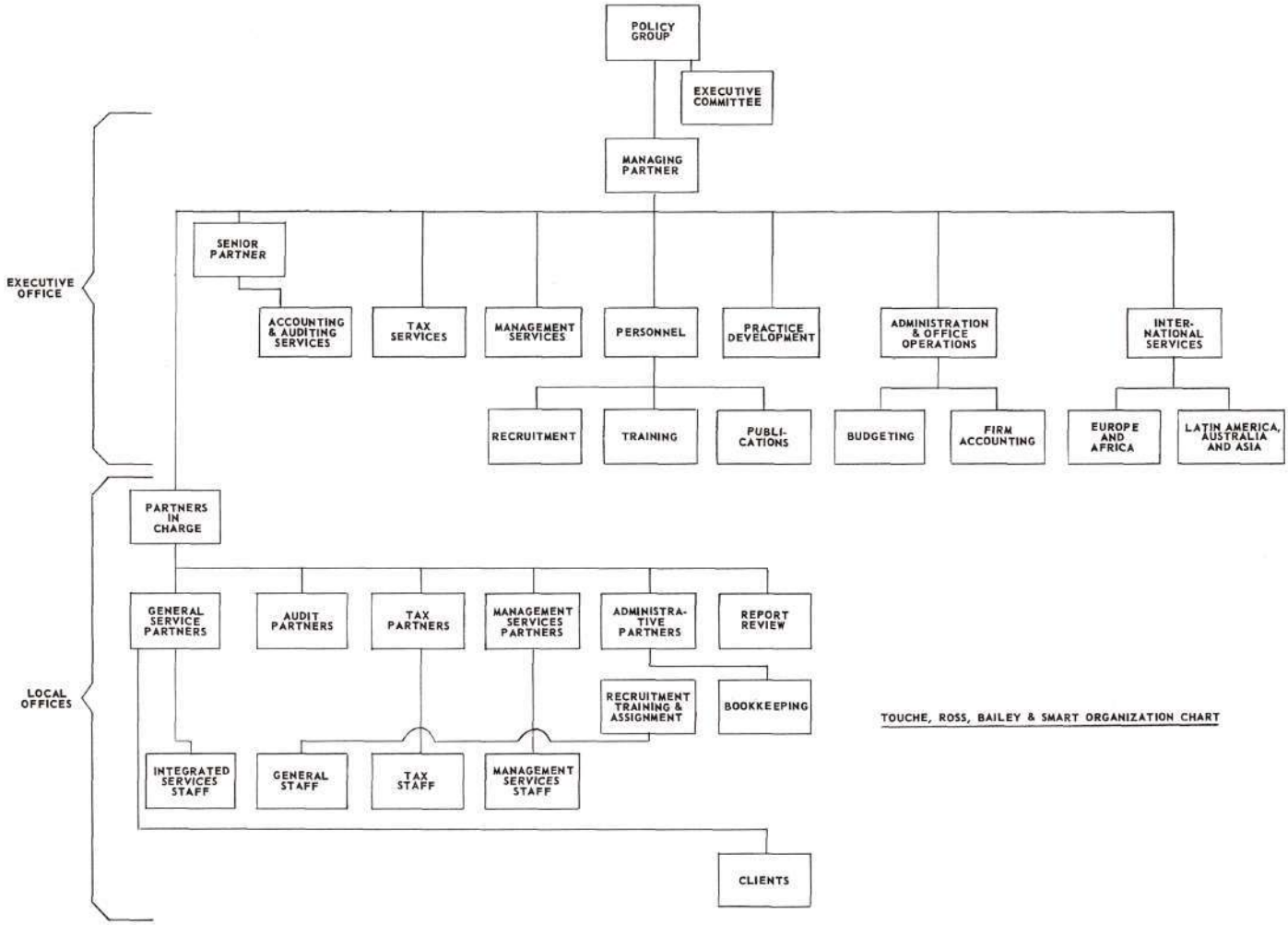
By definition then, a general service partner must be a person with experience to deal in all three services. In addition, he could have a specialty. Thus, a general service partner for one client might be a tax partner for another, or vice versa. In this case, it would be the tax partner's job to familiarize himself with all phases of the client's business and to see what help he may need from any quarter.

In some offices, the "added ingredient" may be provided by *integrated services* departments, consisting of technical people who have a broad background of experience in all three technical services. Clients assigned to the general service partner in charge of such a department usually require a broad, rather general but perhaps intensive type of service. The integrated services departments generally will be found only in the larger offices. They constitute a sort of "small business department." It is usually the smaller client organization which is assigned to such a department, while the larger and more complicated clients are handled by members of regular client services staffs but always under the direction of a general service partner. In smaller offices, all or a major part of the staff may be organized as an integrated services department.



In our organization there is a clear distinction between *line* and *staff* positions. Line authority runs from the *Policy Group* at the top of the organization chart to the *Managing Partner* and thence to *partners in charge* of offices. The partners in charge delegate line authority to other partners and managers in the office. Line executives in the offices are responsible for the management of engagements and operations generally, and for the day-to-day implementation of firm rules, policies and objectives.

Our firm has an organization chart closely resembling the corporate form. On our chart, our Policy Group has a position comparable to that of the corporate board of directors with the chairman of the group corresponding roughly to the chairman of the corporation's board. The Managing Partner occupies much the same position as the president and chief executive officer of the corporation. We also have an *Executive Committee* which, contrary to what the name may imply, is not part of the line organization but a group created to advise the Managing Partner.



TOUCHE, ROSS, BAILEY & SMART ORGANIZATION CHART

The Managing Partner is responsible for running the organization as its chief executive within the bounds of established policy. However, it is highly desirable that he take counsel from the Executive Committee and it has been found to be important that he meet with its members approximately once a month. Major support also comes from the Senior Partner, who takes the responsibility for the quality and breadth of auditing and accounting services and their coordination with the other services.

While the Managing Partner is busy developing and implementing new programs, the Policy Group concerns itself with the impact of proposed new programs on established policy and with the need for changes therein to carry the partnership forward.

The partner in charge of the local office is the lead man on the firing line but, unfortunately, he is under such constant fire that he has to fight for time to plan or to meet the detailed demands for new and specialized services. However, he can call on a complete array of staff specialists in the firm's fully-staffed executive office who are in a position to assist him materially in his effort to propel the office ahead. This does not detract from, but on the contrary strengthens, the position of the local partner, for he is the man responsible for serving the client.

This almost always means that these facilities give the partner in charge a chance to express the real spirit of the firm. He must be a real managing partner is his own particular sphere, not a man who gets tied up in minutae, but one who is able to see the big picture and to turn in a good performance as a leader of men.

This is the essence of our effort to serve the fast-spreading and ever-shifting demands of world business with total services wherever they may be needed. The general service partner and the integrated services staff are the keys to the new order but a top-side organization has also been evolved to meet—no, more than that, to anticipate —the new conditions in business.

In the executive office, working closely with the Man-

aging Partner, there is a staff of seven national directors who function in the following areas:

1. Accounting and Auditing Services
2. Tax Services
3. Management Services
4. International Services
5. Personnel Activities
6. Administration and Office Operations
7. Practice Development

The roles of the national directors do not relieve the partners in charge of responsibility for managing their designated operations. These roles are essentially staff rather than line but every director has the designated responsibility of developing and recommending firm policies in his assigned area, to be issued with the approval of the Managing Partner. Besides, each one has the responsibility of working out plans and programs to achieve specific objectives in his particular area as, for example, the administrative director who is charged with developing administrative policies and procedures and assisting in the overall management of the firm; the personnel director who is charged with the recruitment and development of personnel; and the practice development director who is charged with extending services and opening new offices.

Besides, many of the directors have several objectives in common, such as:

Maintaining high standards of technical competence,
Counseling offices on technical problems,
Developing an effective program of research,
Developing or collaborating in the development of training activities,
Promoting the services of their departments,
Supervising liaison with domestic and international offices and outside organizations.

At this point, I would like to make sure we all realize how much strength these specialists add to our organization. They are all men of outstanding accomplishments with national reputations in their fields, who fully appreciate the opportunities which lie ahead. Their presence leaves the Managing Partner free to make plans for further progress of the firm. He does not have to fritter away inordinate amounts of time in the shuffling of papers, hanging on the telephone and re-directing lost sheep. Instead he is relatively free to sit back and think, to coordinate the things he should be coordinating, to plan for further progress and to lead the firm ahead.

This staff of specialists is symbolic, in a way, of a major decision we have made in our firm. Periodically, through the years we undertook intensive discussions on alternative courses of action which took form in these two questions:

(1) Should the firm be an organization run rather inexpensively with a minimum number of staff people, in which the work now done by the national directors would be the extra-curricular activity of the line executives in the offices?

or

(2) Should we set up national directors with no line responsibility who would be available to take the lead in such things as research and training and to furnish whatever technical assistance the various partners might require?

Gradually, we came to a decision in favor of the second course, even though we realized that it was the more expensive in the short run. We felt that in following the first course we would only be doing half the job, where the line people would have to expend their efforts in the daily grind of getting and serving clients and probably have very little opportunity to sit back and plan for the future.

We decided as we did because we had no intention of simply maintaining the status quo; we were out to organize the firm for greater growth and we felt the second course of action would get us much further along in considerably less time. Moreover, we felt that if we achieved our growth objectives, we would well be able

to afford the extra expense involved in adding the national directors and their staffs.

From a practical standpoint, the attainment of our objectives with respect to integrated services for clients implies especially vigorous attention to management services, and we have the capacity, the desire and the technical capabilities which are needed to do this job. Our conceptual breakthroughs in Profitability Accounting, SIM and advanced business systems, to mention just a few of our "firsts," bode well for the future.

Ten years ago, the management services of major public accounting firms might have comprised five per cent of professional services in general. A current rough estimate of such activities might be 15 per cent. Various predictions on the importance of management services in the next ten to twenty years assign it a proportion of from 25 to 30 per cent of the profession's total services and many of the estimates run far higher.

We ourselves think along these lines and our firm was one of the first to get into management services in depth and to recognize the value of this added element. And while we have not reached our goal with respect to the proportion of this kind of activity in our total service pattern, we are definitely on the way and the nature of our planning would seem to insure success of the program we have set up.

Though considerable space is being devoted here to the coverage of management services, this is not meant to depreciate in any way the importance of our other two classes of service. Auditing will at any time in the foreseeable future compose the bulk of our work. And every financial decision in business today has some tax implication, so that we may be sure the function will be one of steadily growing importance which will continue to offer rich career opportunities.

But before we leave the general subject of management services, it should be pointed out that management services work as practiced by CPAs should be limited to the development and installation of business systems, either in part or in entirety, and to consultation with respect to the significance of information produced by such systems.

This precept is reasonably construed to include activities such as installation of inventory control or electronic data processing systems. Meanwhile, the rule would exclude from the practice of management services activities such as plant layout work and psychological testing. Further, it might be said that we serve management but do not do management's work. We do not participate in the making of individual management decisions. The accountant bears the responsibility of consulting and recommending, but management bears the responsibility of decision making.

Our growth program has brought us to the point where today we have 131 offices in 32 countries. For us, expansion is not a major goal in itself, but business today is expanding tremendously all over the world and we must go with our clients wherever they go.

But if we are to achieve our planned growth, there are several other things we must do:

1. We must constantly improve our recruiting. Both on campus and in business, we must make our firm so attractive that we can continue to attract the young stars who will proudly bear our name 15 or 20 years from now.

2. We must constantly be finding ways to expend more thought, effort and money on local, regional and international training programs. The trainees must not only be the new people we are just bringing into the firm but also those solidly established in the organization—all the way up to the top.

As an example of one of our newest training programs, many of our partners, managers and supervisors—about a hundred to begin with—are presently attending seminars on how to coordinate auditing with the technique of the computer. We want to teach the auditor what the computer can do and what he has to do with it. And we want to teach the EDP man to install the system so that it can be audited. This curriculum deals at first with methodology as it applies today to the partial systems in

use among our clients, but it also looks forward to the day when the entire information system will be put on the computer.

We are also continuing our extensive training programs in statistical sampling, applied not only to auditing but also to the whole accounting process.

The new technologies in electronic data processing, management sciences and Profitability Accounting are not only difficult to understand but even harder to explain. And it is on this technique of explaining or teaching—popularizing, if you will—that we are concentrating particularly hard right now.

Involved and complicated as they are, these new disciplines must be distilled down to their simplest elements and skilfully interpreted so that they can be communicated and understood by non-technical client management. We have excellent technical people who understand these new disciplines and today it must be part of their job to educate general service partners so that they in turn can inform the clients and make them enthusiastic about the rich new opportunities that are open to them. This is all part of the training program.

3. Lastly, if we are to grow, we must excel in research. We have already conducted much valuable research and it's highly important that this go on. We would stagnate without it.

In the meantime it is important to coordinate and implement the results of research already completed and to distribute it to the people in the field who need it. Many industrial firms, too, are recognizing the desirability of marketing the research they already have done. We must keep our research from getting locked up in the minds of the researchers.

We have already taken steps in this direction. In auditing, for example, we have a forward-looking program which will result in all of our research being systematically documented and circulated to all offices. But beyond this, we are working toward a permanent system for all professional and scientific areas that will organize, preserve and apply research reports which might otherwise be filed and forgotten in places where no one would think of looking for them.

This, then, is the configuration of Touche, Ross, Bailey & Smart, and it is also in a large measure the "new look" which much of our profession is assuming in order to supply the guidance system for space-age business in a new and unfamiliar orbit. As auditors, we in our profession have traditionally been characterized as people who do nothing but check and double check, as routine performers who sit around all day making tick marks up and down a column of figures. Those days are gone forever. The auditor today must be more interested in internal control and the flow of data in management information systems than he is in the reconciliation of bank accounts and the aging of accounts receivable, necessary as these procedures may be.

Today the TRB&S man is first and foremost a business man. He must understand the entire business process, lest he fail to see the forest for the trees. He must see the real meaning of the figures and information which march before him if he is to give management answers it needs.

If we meet these specifications, we can be sure that we will always be a strong firm, one with a future for all of us. It will not be an easy thing, but we must forever be sure of keeping alive the talents necessary to provide our clients with *total service on an integrated basis,* and not only must we have such talents but we must let business know that we have them.

Robert K. Mautz is professor of accountancy at the University of Illinois. His essay won first place recently in a contest held to create a code that could be observed by business students as well as the individual businessman.

The contest was sponsored by the Alpha Kappa Psi Foundation, a non profit foundation established in 1951 by Alpha Kappa Psi Fraternity, a national professional business fraternity. Its purpose is to educate the public in economic principles and to conduct research in business and educational subjects.

A Personal Code of Business Ethics

I BELIEVE in American business.

I BELIEVE the American enterprise system offers the best opportunity for individual progress, the greatest incentive to personal development, and the strongest protection to democratic ideals of any economic system in the world today.

I BELIEVE in the private ownership of capital.

I BELIEVE that, under conditions of fair competition, the profit motive is the most effective force in stimulating innovation and efficiency in business operations.

I BELIEVE that a number of interests contribute directly to the success of the American enterprise system and that equity requires that increases in the productivity of the system be shared among these interests.

I BELIEVE that each individual who benefits from the American enterprise syystem has an obligation to work for its improvement, and that he likewise has an obligation to refrain from any action that would reduce or restrict the most effective operation of this system.

I RECOGNIZE that the frailties of man and the temptations to which he is subject may interfere with the most effective functioning of a system of free enterprise and that constraints directed at the selfish few are required for the protection of all.

I BELIEVE that high ideals and self control on the part of each individual constitute the most desirable form of constraint but accept the imposition of group controls where necessary.

Believing these things, I pledge myself:
To recognize the interest of all free men in a strong American economy;
To pursue vigorously, within the bounds of the law and moral propriety, a fair and reasonable profit for the enterprise with which I am affiliated;
To compete fairly and without recourse to conspiracy, intimidation, or other anti-social behavior;
To refrain from any action that reduces competition, innovation, freedom, or efficiency in the American business system;
To seek out, praise, and support those tendencies, activities, and individuals who defend and encourage competition, innovation, freedom, or efficiency;
To seek out, criticize, and oppose those tendencies, activities, and individuals who would reduce competition, innovation, freedom, or efficiency;
To apply high standards in my personal life in order to reflect credit on the business system I represent.

By ROBERT K. MAUTZ

Partners-in-charge Meeting

"Today the TRB&S man . . .
must understand the entire business process . . .
if he is to give management the answers it needs."

ROBERT BEYER
at the 1963 Partners-in-Charge Meeting
March 27-30, New York City

Paul Hamman, Detroit, enjoys talking to Managing Partner Robert Beyer.

Coffee break finds William Werntz, New York office, in serious discussion with John Crouch from Kansas City.

Laurine Newquist, Firm Accountant, was on hand to take part in the concurrent sessions.

James Gram, National Director for Practice Development, spoke on effective development programs. Here he chats with Clinton Pearson from Memphis and Keith Cunningham from Dayton.

When our Partners-in-Charge held their annual meeting this spring, there was no doubt that the chosen theme was INTEGRATED SERVICES. Presentations ranged from a skit on Profitability Accounting to talks on electronic data processing and operations research. In the discussions that followed, Partners and Directors discussed integrated programs in which our specialists would collaborate to set up systems adapted to suit each client's needs.

Donald Bevis spoke on audit engagements and participated in the concurrent sessions. He is Senior Partner and National Director for Accounting and Auditing Services as well as for International Services.

Kenneth Mages, National Director of Administration and Office Operations, was a speaker and later conducted one of the concurrent sessions.

Donald Cramer, National Director-Personnel, spoke on staff development and conducted a session on personnel policies.

Roger Crane, National Director, Management Services.

At lunch William Power (management services in the executive office), visited with Ed Wagner from St. Louis and Thomas ("Jeff") Ennis from San Jose.

"Organization" was the topic covered by these four . . Louis Werbaneth, Pittsburgh; Gerald Gorans, Seattle; Milto Gilmore, San Francisco; and Leslie Laidlaw, Chicag

Richard Stratford, Los Angeles, and David Muir from Dallas.

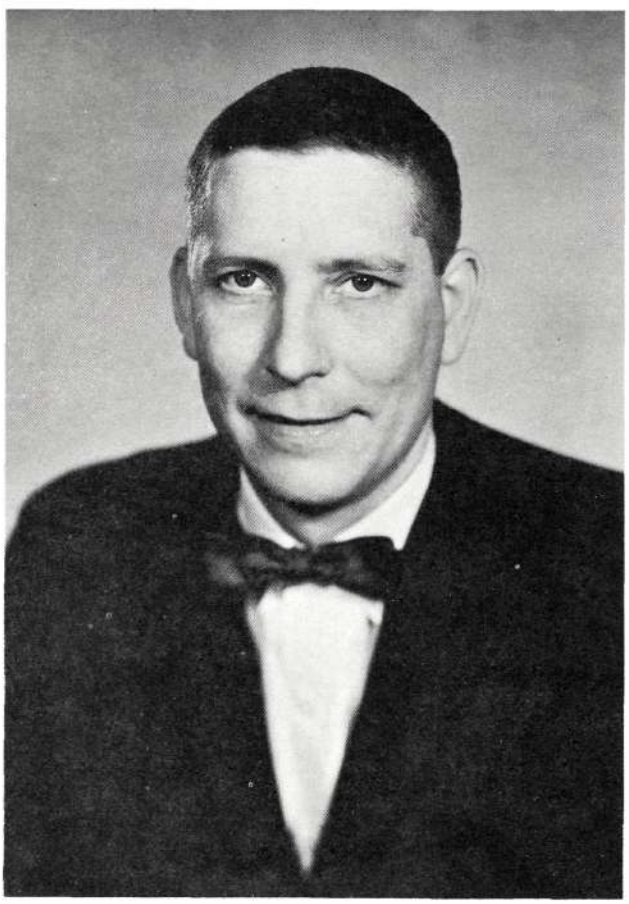
Wallace Jensen, the National Director—Tax Services with Philadelphia's Lawrence Scully. Mr. Jensen's address to the group covered tax work.

(upper left) Karney Brasfield from Washington and Dayton's Allan Parker talk to Henry Korff, Recruitment Director.

(above) George Meitner, San Diego, with Boston's Hugh Dysart, and Gail Brown from Rochester.

(left) Palmer Tang, Minneapolis, goes over the program with Denver's Arthur Samelson.

Rate of return techniques in capital budgeting



H. Justin Davidson lives in Chicago and directs the firm's national statistical sampling program. A graduate of the Carnegie Graduate School of Industrial Administration, he received his M.S. degree in mathematical economics in 1955. After his graduation he was associated with the Operations Evaluation Group (Navy-Massachusetts Institute of Technology) and the Arabian American Oil Company. He joined TRB&S in 1957.

by H. Justin Davidson

THE USE OF RATE OF RETURN TECHNIQUES in the capital budgeting process is comparatively old. The theory underlying these techniques was developed in the 1930's.[1] Practical interest in rate of return techniques and their acceptance by business stem largely, however, from the work of Joel Dean in the early fifties.[2] Following Dean's pioneering popularization, the late fifties saw such down-to-earth journals as the *Harvard Business Review* and the *NAA Bulletin* espousing the virtues of rate of return techniques in the capital budgeting process.

Capital budgeting in any company involves the allocation of usually scarce, and certainly limited, funds to competing investment alternatives or projects. Should

[1] Cf. E. L. Grant, *Principles of Engineering Economy*, New York, 1930.

[2] Cf Joel Dean, *Capital Budgeting*, New York, 1951.

funds be allocated to new retail stores in Kalamazoo or in Chicago? Should a new plant be constructed or should the old plant be renovated and modernized? Should we replace machine X with machine Y?

From an overall point of view, the capital budgeting process can be broken down into three phases. A first phase is the origination and engineering of projects. In order for investment alternatives to be compared and for capital budgeting decisions to be made, there must be a process which generates worthwhile investment projects for consideration.

A second phase in the capital budgeting process is the comparison and evaluation of alternative projects. Given a variety of capital projects that may be undertaken, which particular projects are financially most attractive? Which projects should be undertaken?

A final phase of the capital budgeting process comes after a choice of projects has been made. The projects must be followed up and implementation of the projects controlled.

The rate of return techniques described in this article apply only to the second, or evaluation, phase of the capital budgeting process. It should be emphasized, however, that rate of return techniques alone do not solve all three phases of the capital budgeting problem. A company that does not continuously generate a flow of new investment ideas and projects will not be successful because it uses rate of return techniques. Although rate of return techniques can be used to evaluate projects, this will not be of much help to a company if the set of projects being considered is marginal.

Similarly, if capital investment decisions made using rate of return techniques are not followed up and controlled, the capital budgeting process may well break down. Without follow up and control, projects actually completed may bear no resemblance to projects originally proposed. If no one is to be held responsible for project cost and profit goals, the original estimates of costs and profits for proposed projects may not be realized.

With this background about the general applicability of rate of return techniques, let us turn to an explanation of how they are applied in the evaluation phase of the capital budgeting process.

The first point that must be made concerns the difference between rate of return techniques and conventional methods of measuring the desirability of capital budgeting projects. As contrasted with conventional techniques, rate of return techniques take into consideration the differences in project desirability that are introduced by the timing of project outlays and receipts.

To illustrate this point, consider two projects, A and B, that are competing for investment funds. Project A requires an initial cash outlay of $600 with subsequent cash recoveries of $200, $400 and $100. Project B also requires an initial cash outlay of $600 with subsequent recoveries of $400, $200 and $100. We note that Projects A and B are equally attractive when measured by conventional methods. They require the same capital investment. They both offer the same total cash recovery. They both have the same pay-out period, two years. Computing the average book return on capital invested, they have the same profit rate. Yet, although these projects seem equal, we intuitively prefer one of the two projects, Project B. Project B seems more desirable because we

CHART 1

COMPUTING RATE OF RETURN

Period	Project Cash Flow	5% Present Value Factor	Present Value at 5%	10% Present Value Factor	Present Value at 10%	7% Present Value Factor	Present Value
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	$(200)	0.976	$(195.2)	0.953	$(190.6)	0.967	$(193.4)
2	50	0.929	46.4	0.867	43.4	0.903	45.4
3	(100)	0.885	(88.5)	0.788	(78.8)	0.844	(84.4)
4	200	0.843	168.6	0.716	143.2	0.789	157.8
5	25	0.803	20.1	0.651	16.3	0.738	18.4
6	80	0.765	61.2	0.592	47.4	0.689	55.1
Total Present Value			$ 12.6		$ (19.1)		$ (1.3)

recover our outlay faster. Although total cash outlays and recoveries are the same, there is a difference in the timing of cash recoveries. How do we measure this difference?

This question brings us to the fundamental feature of rate of return methods. Rate of return employs a discounting technique to reflect the time difference in project outlays and expenditures.

Now discounting is a familiar technique to most accountants. Let's take a commonplace example. Suppose someone asks you to determine the value to you *now* of a gift of $1,000 *a year from now*. In answering this question, you might very well reason in the following way. If I have $1,000 now, I can take it down to the Friendly Savings and Loan Association and get the going rate of 5%. At the end of one year, my $1,000 will have grown to $1,050. It follows that, if $1,000 *now* grows to $1,050 in *one year*, $1,000 a *year from now* is worth only $1,000 divided by $1,050 at the present time, or roughly $952. In financial terms, what we are doing by this line of reasoning is discounting the future gift of $1,000 to the present time on the basis of a 5% rate of interest. In effect, we are accounting for time differences in the value of money by a discounting process.

Suppose that instead of measuring the present value of $1,000 a year from now, we are faced with the job of evaluating the value of a whole string of dollars at different dates in the future. Suppose we have the capital project with the cash outlays and receipts shown in column 2 of Chart 1.

[3] The discount factors used in this computation are "middle-of-the-period" factors, as contrasted with "end-of-the-period" factors found in most standard discount tables.

One way that we can evaluate this project is to compute the present value of the project receipts and outlays at various assumed rates of interest. An illustration of such a computation is shown in columns 3 and 4.

Assuming an interest rate of 5%, we obtain the present value or discount factors for this rate from any financial table.[3] We then apply the appropriate discount factor to the outlay or receipt as applicable to obtain the discounted or present value of the outlay or receipt. Adding the present value of the various outlays and receipts, we obtain the total present value of the project, in this case 12.6, at the assumed interest rate, in this case 5%.

In this example, we have computed the present value of the project assuming a particular interest rate. We can, of course, use the present value at this rate as a measure of financial worth of the project. We can, however, turn this process around and compute another measure of project worth. Suppose that, instead of assuming an interest rate, we assume a present value, for example, a present value of zero. Instead of asking what the present value is at an assumed interest rate, we than ask what the interest rate is at the assumed present value of zero.

Suppose we do ask what is the interest rate that makes the present value of the project zero. How do we determine this interest rate?

The general answer is that we compute it by trial and error. For example, at 5%, we see that the total present value of the project is plus 12.6. We decide to try a higher interest rate, say 10%. Computing the present value at 10% as shown in columns 4 and 5, we see that the present value becomes minus 19.1. The interest rate that makes the present value of the project zero is, there-

CHART 2

PROJECT COMPARISON

Year	Project B	Project A	Incremental Cash Flow	35% Present Value Factor	Present Value at 35%
(1)	(2)	(3)	(4)	(5)	(6)
1	$(1,200)	$(800)	$(400)	0.860	$(344.0)
2	800	600	200	0.638	127.6
3	800	600	200	0.472	95.4
4	800	600	200	0.350	70.0
5	800	600	200	0.259	51.8
					0.8*

Total Present Value

*Approximately zero

fore, somewhere between 5% and 10%. It is probably closer to 5% and for our next trial then, we use 7% as shown in columns 6 and 7.

As a result, we see that the present value of the project at 7% is minus 1.3, or very nearly zero. Since 7% is the interest rate which makes the present value of the project zero, we say that 7% is the *rate of return* of the project. In the same fashion as present value, rate of return is a measure of the financial attractiveness of the project.

It must be emphasized that it is possible to use either rate of return or present value as a measure of project attractiveness. One can easily transform the present value measurement into a rate of return measurement, and vice versa. In the following discussion, however, we will use rate of return as the measure of project attractiveness, simply because it is the measurement most commonly used and understood.

At this point, we can summarize briefly what the rate of return of a project means. In straight-forward terms, the rate of return of a project is that interest rate which makes the present value of cash outlays and cash receipts equal to zero. In financial terms, the rate of return of a project can be more simply interpreted. If you were a bank and made loans (outlays) and received payments (receipts) corresponding to the actual cash flow of the project, the rate of return for the project would be the effective interest rate that you, as a bank, would earn. It is that interest rate which enables repayment of the loan and recovery of interest payments on the outstanding balance of the loan.

Having a rate of return as a measure of the financial attractiveness of a project, how do we use it in making an investment decision? To illustrate, we will work quickly through a typical capital investment problem.

For example, let us suppose that a manufacturer is trying to choose between two capital projects, Project A and Project B. Let us suppose that Project A represents a maximum modernization of existing plant facilities, and that Project B, requiring a larger investment, represents an expansion of plant facilities.

In this situation, the first step in using rate of return techniques to compare the two projects would be to compute the cash flow of each project. At this point, we will not go into detail as to how the cash flow of a project is computed. In general, however, the cash flow of a project is computed in the conventional accounting sense. To move ahead, we will suppose that we have computed the cash flows for each project as shown in columns 2 and 3 of Chart 2.

At this point, we can state the rate of return rule for comparing alternative capital investments, in this case Projects A and B. *One project is preferable to a second project if and only if its incremental cash flow yields a rate of return acceptable to management.* With this rule the next thing to do is to compute the incremental cash flow of Project B as compared with Project A. This incremental cash flow of one project over a second project equals the cash flow of the first project, in this case Project B, minus the cash flow of the second, in this case, Project A. The incremental cash flow of Project B over Project A is shown in column 4.

Having computed the incremental cash flow, we proceed to compute the rate of return on this incremental cash flow. As before, we select an interest rate, apply the applicable discount factors, and compute the present worth of the incremental cash flow. That interest rate which produces a present value of zero is the rate of return. As shown in the chart, this rate of return is 35%.

CHART 3

PROJECT RATES OF RETURN

Year	Project A	65% Present Value Factor	Present Value at 65%	Project B	55% Present Value Factor	Present Value at 55%
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	$(800)	0.778	$(622.4)	$(1,200)	0.803	$(963.6)
2	600	0.472	283.2	800	0.518	414.4
3	600	0.286	171.6	800	0.334	267.2
4	600	0.173	103.8	800	0.216	172.8
5	600	0.105	63.0	800	0.139	111.2
Total Present Value			(0.8)			2.0

CHART 4

Interest Rate	Present Value	
	Project A	Project B
20%	$687.4	$794.8
35%	342.6	342.6
55%	81.8	0
65%	0	(104.8)
90%	(131.0)	(274.0)

We are now in a position to decide whether or not Project B is preferable to Project A. If the rate of return acceptable to management is 35% or less, Project B will be preferred to Project A, since Project B earns 35% on the incremental investment. If the rate of return acceptable to management is more than 35%, Project A will be preferred to Project B. To put it another way, the additional investment in Project B relative to Project A is not worthwhile if a 35% rate of return is not considered large enough. At a 35% rate, of course, the choice between the two projects is indifferent.

The above example illustrates the use of rate of return on the cash flow increment, or incremental rate of return, method for choosing between two alternatives. But at this point, we must be careful not to push our results too far. Our answer tells whether Project A or Project B is preferred, but it doesn't tell us whether either Project A or Project B are really any good. To find out whether either Project A or Project B is any good, we must remember that we have a third alternative hiding in the woodpile, the project of "doing nothing." So to find if Project A is any good, we must compare it to "doing nothing." Similarly, we must compare Project B to "doing nothing."

Applying the incremental rate of return method to the comparison of Project A and "doing nothing," we note that, in this case, the cash flow of "doing nothing" is zero. Thus, the incremental cash flow of Project A over "doing nothing" is simply the cash flow of Project A and the incremental rate of return of Project A over "doing nothing" is the same as the rate of return of Project A. In the same fashion, the incremental rate of return of Project B over "doing nothing" is the rate of return of Project B. Computation of the rates of return for Project A and Project B is shown in Chart 3. The results indicate a rate of return of 65% for Project A and a rate of return of 55% for Project B.

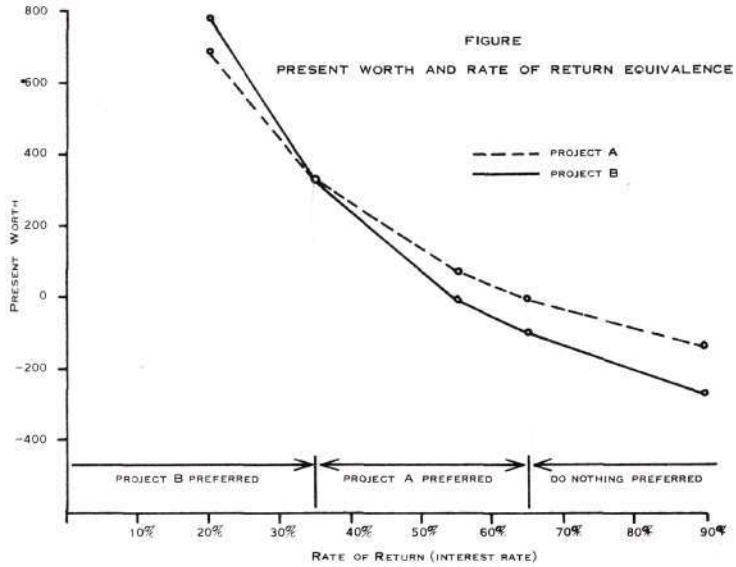
For the combined comparison of Project A, Project B and "do nothing," our results may be summarized as follows:

1. If the rate of return acceptable to management is less than 35%, Project B is preferable.

2. If the rate of return acceptable to management is greater than 35% and less than 65%, Project A is preferable.

3. If the rate of return acceptable to management is greater than 65%, "do nothing" is preferable.

Earlier the point was made that the results of company projects using rate of return methods are equivalent to results when present value techniques are used. This equivalence can be illustrated in the current example by



graphing the present value of the two projects at various interest rates. In Chart 4, the present values of Projects A and B are set forth at varying interest rates. These values are graphed in Figure 1.

It should be noted that this present value graph yields the same conclusion as the rate of return analysis. If the rate of return acceptable to management is less than 35%, Project B is preferred, since its present value is greater. Between 35% and 65%, Project A with the greater present value is preferred. After 65%, "doing nothing" is preferred, since both projects have negative present value.

This example points out the equivalence of rate of return and present value methods for evaluating capital projects. As a practical matter, this equivalence means that the results of evaluating capital projects can be presented in either rate of return or present value terms. Rate of return is perhaps the most common form of presentation.

Any discussion of rate of return methods for evaluating capital projects would be remise if some of its shortcomings are not pointed out. These limitations include the fact that rate of return techniques provide no way of measuring the risks attached to alternate capital projects. Two projects may have the same rate of return but vary greatly in risk. Another limitation involves the difficulty of determining the proper acceptable rate of return for management to use. Other technical limitations involve the realism of reinvestment assumptions and project discreteness assumptions involved in most rate of return formulations.[4] Despite such limitations, however, rate of return is probably the most practical and most accurate method of evaluating capital projects that is currently available to management.

[4] For a discussion of these limitations see Victor H. Brown, "Rate of Return: Some Comments on its Applicability in Capital Budgeting," *The Accounting Review*, Vol. XXXVI, No. 1. See also H. Martin Weingartner, *Mathematical Programming and the Analysis of Capital Budgeting Problems*, Ph.D. thesis, Carnegie Institute of Technology, 1962.

The Committee on Long-Range Objectives

Robert M. Trueblood, Chairman
— *Touche, Ross, Bailey & Smart*
Norton M. Bedford
— *University of Illinois*
Malcolm M. Devore
— *Haskins & Sells*
Clifford V. Heimbucher
— *Farquhar & Heimbucher*
David F. Linowes
— *S D. Leidesdorf & Co.*

THE LONG RANGE planning which we endorse as a first essential for business has not been lacking in our own profession. For seven years, the AICPA's Committee on Long-Range Objectives has studied the basic concepts and trends that will influence the future of the profession. They are now engaged in a two-year study of where the accounting profession would like to be in 1975 and what it will take to get there.

The Committee was created in 1956 by Marquis G. Eaton, then president of the Institute. He was convinced that the concept of planning and control, which had made so much headway in business corporations in the previous decade, was even more essential in the operation of a non-profit, professional association than in a business entity. There was no framework to deal with specific, immediate problems. Allocation of resources or assignment of priorities among projects was difficult without general agreement on the end results desired. In a democratic membership organization rapid turnover of officers and committees is characteristic, and objectives should be stated clearly. Mr. Eaton concluded that what the Institute did today would have significant bearing on where the accounting profession might find itself in ten, fifteen, or twenty years.

From the beginning, the committee was composed of thoughtful, studious, and articulate men who had occupied leading positions in the profession—men of broad experience and seasoned judgment, known to be objective and skeptical of their own opinions.

The impact of the committee's work has been tremendous. It has stimulated considerable and serious thought on the philosophical problems of the profession. It has had an immediate influence beyond all expectation on Institute policy and activity. For several years the agenda of Council meetings have included major items arising out of the work of the Committee on Long-Range Objectives. A number of Institute programs now under way are the direct result of the committee's recommendations.

Members of the Committee have set forth and published articles giving their views on a variety of subjects and problems now being studied. Much of this material has been collected in a book edited by John L. Carey (Executive Director of the Institute) entitled "The Accounting Profession: Where is it headed?"

When the work of the Long-Range Objectives Committee is completed, it will provide a framework for the Institute to follow in redesigning its programs and projects into an integrated, consistent pattern that will facilitate achievement of the objectives with maximum speed, efficiency, and economy.

Courtney C. Brown (right), Dean of the Business School at Columbia University, served as consultant. Here Chairman Robe Trueblood leads discussion following Dean Brown's address.

Clifford V. Heimbucher

At the April meeting . . .

Norton M. Bedford

John L. Carey (left), Executi Director of the Institute, assists the Committ but has no vote. Speaking is David Linowes, newest member of the Committe

Malcolm M. Devore

TRB&S develops COMSOAL

Computer Method of Sequencing Operation for Assembly Lines

for balancing Assembly Lines

Dennis E. Mulvihill[1]

Assembly line balancing is the term applied to a common problem in many industries, that of sequencing continuous manufacturing operations and assigning various combinations of these operations to individual workers on the line. A perfectly balanced line results when manufacturing operations are assigned to men in a sequence which minimizes the number of men required, equalizes the amount of work assigned to each man, minimizes both idle time and make-ready time,[2] but ensures sufficient idle time to handle the expected variations in operation times without slowing the line. To the extent that the line balance is less than perfect, men and equipment are used inefficiently.

Balancing an assembly line by manual, trial and error methods is an arduous task. Industrial engineers now spend up to several weeks developing a few sequences of operations in order to select one they hope will minimize the number of men required for a line. Since there are usually many thousands or even millions of different sequences which could be developed, it would be most surprising if the engineer stumbled upon the best sequence in half a dozen tries.

In order to solve this problem, the method which we call COMSOAL, COmputer Method of Sequencing Operations for Assembly Lines, was developed by TRB&S personnel in conjunction with personnel from one of our clients and from one of the major computer manufacturers. Although the basic technology underlying COMSOAL will soon be widely known, TRB&S presently has proprietary rights to the only comprehensive working system, and it would cost a company perhaps $250,000 to develop a similar system on their own. Our system is available at a fraction of that cost.

The basic COMSOAL system is designed and programmed for running on an IBM 7090. The computer programs are sufficiently general for application to the vast majority of assembly lines, so it is not necessary for a company to have its own IBM 7090 in order to use COMSOAL. Time can be rented on a number of these computers throughout the United States.

Many companies can substantially improve their assignments of assembly line labor without resorting to the computer. In applying COMSOAL, the first step is the development of a "balloon diagram," illustrated below. This shows all of the required technological precedence relationships among operations which have to be performed on an assembly line. In other words, it shows all of the other operations which must be completed before starting on any particular operation.

The balloon diagram, although it bears a superficial resemblance to a PERT network diagram,[3] is concerned

[1] The other former or current members of TRB&S who helped in the development of this technique are Albert Arcus, now with the University of California, Gerald Demirjian, now with Chrysler Corporation, Sanford S. Ackerman and Roger R. Crane.

[2] Make-ready time covers necessary but nonproductive operations such as picking up and putting down tools, walking back to a start point along a moving conveyor and indexing the work into the proper physical positions.

[3] See "PERT-CPM" by William D. Power, *Quarterly*, December 1962.

Before joining the management services division of our New York office, Dennis E. Mulvihill had been with IBM as an EDP Systems Representative, with United States Army Ordnance as Organization and Methods Examiner, and a lecturer in government at Duquesne University. He received his Ph.D. in Public and Industrial Administration in 1959 at the University of Pittsburgh. Dr. Mulvihill also has a B.A. in government and an M.A. in Public Administration from Duquesne University.

only with precedence relationships, not with total time for a path. As with the PERT network diagram, however, the systematic development of a balloon diagram can help to define a complex relationship more clearly, and its use may lead to improved assignments of assembly line labor even without using the computer to calculate the best assignment. In developing the balloon chart, COMSOAL shows not only the precedence relationship for each operation, but all of the information pertinent to balancing a line. This information is indicated in the large balloon of Exhibit 1.

The Results of Using COMSOAL

After more than a year's experience with the actual use of COMSOAL for balancing assembly lines at one of our major clients, its advantages over the customary methods of balancing lines can be summarized as follows:

- The sequence and assignment of operations generated by COMSOAL results in reduced direct labor costs. In fact, there is a very low probability that the COMSOAL solution could be improved upon in this respect. In actual cases, less than one hour spent running the COMSOAL program on large computers has provided a significantly better sequence of operations than that obtained from several man-weeks of industrial engineering effort. Idle time has been reduced by 4% to 5%, which is equivalent to annual savings of several million dollars in direct labor on an assembly line producing a "big ticket item" at the rate of 900,000 units per year. (Exhibit 2)
- The amount of Industrial Engineering effort required in order to determine an assignment is greatly reduced. This is particularly important to large companies which employ hundreds of industrial engineers on line balancing.
- There is a significant reduction in the elapsed time required to balance a line or to rebalance it when product mix or line speeds change. Changes in the latter are often required several times a year in order to adjust to changes in volume. The ability to adjust rapidly and efficiently to either of these two kinds of change in production requirements is greatly improved by faster line balancing.
- The ability to compute the lowest cost for each of a number of line speeds and product mixes can be used as a guide in deciding when and how to change from the current line mix and speed.

The Development of COMSOAL

About two and a half years ago, a task force of people set out to examine the feasibility of using a computer to improve the sequencing and assignment of operations to workers on an assembly line of one of our clients. The task force included two operations research consultants from TRB&S, one a mathematician with considerable knowledge in manufacturing operations, and the other an industrial engineer with a mathematical background. The third member, an applied science representative from IBM, was basically trained as a mechanical engineer. The client supplied a computer programmer trained in statistics and his Supervisor of Operations Research. All members of the group had some familiarity with the use of computers.

The first step in the project was to review all previous efforts to solve the line balancing problem. It was found that no comprehensive techniques had been developed[4] to

[4] The early work by IBM and Westinghouse Electric broke the assembly line into a series of zones, each containing a manageable group of operations, and enforced artificial precedence relationships between operations which fell into different zones. The work by Tonge and Salveson did not consider tool handling, work indexing, walk time, and side of the assembly line.

handle the complete problem. The complexity of the client's lines, the recent advances in management sciences, and the availability of an IBM 7090, one of the most powerful computers available, prompted us to seek a better method.

The subsequent development work involved the explicit description of all of the operating elements which should be considered in balancing a line, the compilation in one place of all of the data for several lines which were to serve as guinea pigs, the development of explicit decision rules, the programming of these on the computer, and extensive testing and analysis of results by use of the computer.

After more than 18 months of development work, the COMSOAL program was ready, and the first and smallest of the client's assembly lines was actually balanced by an assignment sequence generated on the IBM 7090. The line consisted of 110 operations or work units (a scheduling unit made up of one or more well defined work elements with standard times). After two man weeks of effort, the industrial engineers came up with an assignment requiring 21 men. The computer generated 1,000 assignment solutions in 20 minutes, of which 150 required only 20 men.

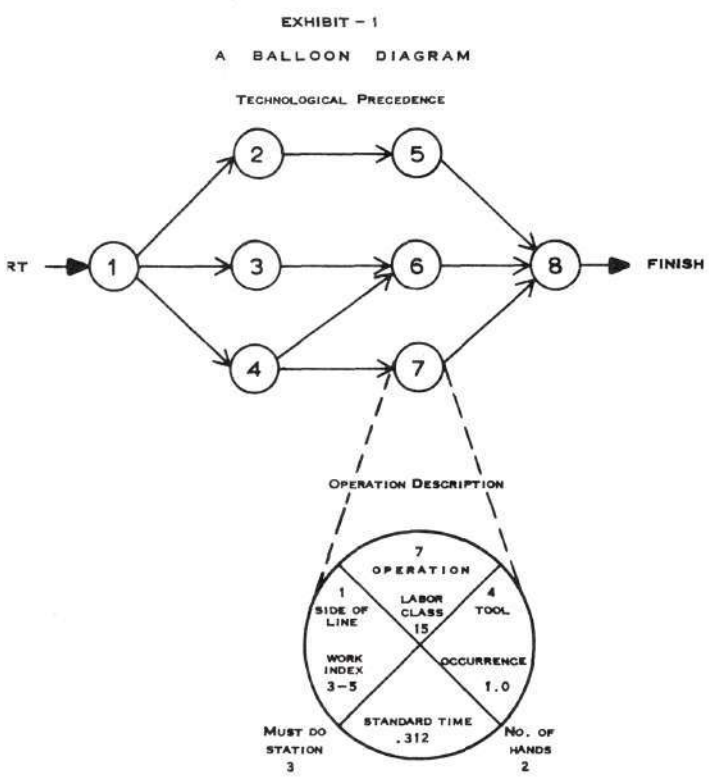
In addition, the computer evaluated these 150 "least men" assignments on the basis of another measure of performance. In this case, the assignment with the greatest imbalance between work stations was selected (i.e., the assignment for which one or more men had the greatest amount of idle time), because this permitted the greatest amount of additional operations to be added to the assembly line.

Thus, the COMSOAL solution not only permitted the line to be balanced with fewer people than the traditional method, and in less time, but it also permitted the line to accommodate more work.

After this successful test, and similar results on several other lines, the client began a comprehensive program of installing COMSOAL on all lines. The bulk of this work lies in training the client's industrial engineers to develop balloon charts, which show all of the pertinent operation data and the precedence relationships in one place, and then developing these charts for each line.

EXHIBIT – 1

A BALLOON DIAGRAM



What Makes COMSOAL Work?

The first ingredient for applying COMSOAL is the existence of explicit operation descriptions and standard operation times. These usually exist in most assembly line operations of any size because the industrial engineers require this information to balance lines under their traditional methods.

The second ingredient required is the balloon chart mentioned above. The use of this chart can improve the manual balancing of assembly lines by providing a systematic, pictorial summary of technological procedures relationships along with operation times and descriptive information about tooling, indexing, etc.

Perhaps the most important ingredient in the success of COMSOAL, however, is the ability of the computer, once properly programmed, to do a much more extensive job of trying various possible solutions to a very large and complex problem.

Industrial engineers have been balancing assembly lines for decades, but most would readily admit that they can consider only a very few of the many possible solutions before deciding to accept one of these which will work, however inefficiently. The reason for this is that line balancing is a combinatorial problem in which the number of different possible combinations is extremely large, even for a fairly small number of operations. With only ten operations to be performed, there are over 3.6 million different ways in which these could be combined. The addition of only two more operations increases the number of possible combinations to about 479 million. Although the constraints imposed by technological precedence greatly reduce the number of possible combinations, the number is still likely to be in the millions. As mentioned earlier, the smallest assembly line at the client's was made up of 110 operations.

The Computer Acts Like an Industrial Engineer

The method of attaching this huge combinatorial problem was to design a computer program which would in effect simulate the steps which a very meticulous industrial engineer would follow in arriving at one sequence and assignment solution. This program was then repeated perhaps 1,000 times. The computer kept track of the distribution of the number of solutions which require say 20 men, 21 men, etc., thus providing an estimate of the probability that the best solution had been found in a sample of 1,000 solutions. In addition, the computer maintained the details of the sequence assignments which resulted in the minimum number of people and printed these at the completion of the sampling.

The logic of the simulation is quite complex. At one step in the program, for example, the computer may consider what operations are available to be loaded into a work station (man) by reviewing the technological precedence relations. If a number are available it will select one at random. In selecting the next operation to be added to this station, it will search the available list for one which requires the same tool. Failing that, it will search for one in which the work is indexed in the same position. After each addition of an operation it checks that the cycle time (the time available at a work station to work on one unit of product) has not been exceeded.

In addition, the computer program considers operations which must be done at particular work stations because of physical line lay-out, time required to walk back to a starting point or to the other side of line, operations requiring two hands, and operations requiring two people.

The Computer Program

The computer program itself is composed of three individual parts. The first is the data program, which makes all the mathematical computations required for computing average time, cycle time, and occurrence frequency for operations which do not occur on every unit. This part of the program also establishes the precedence matrix and generates the master operation data list. The main part of the program is the second part in which the assignments are actually made. The third part is the output program which generates a document for each individual station describing all the operations performed at that station, the tools used, the side of the line on which the operation is performed, the work index position, labor classification and the productive time required for each operation. The document also shows the total assigned time and the total available, unassigned time. The assignment program alone consists of some ten to twelve thousand instructions and 37 different sub-routines and functions.

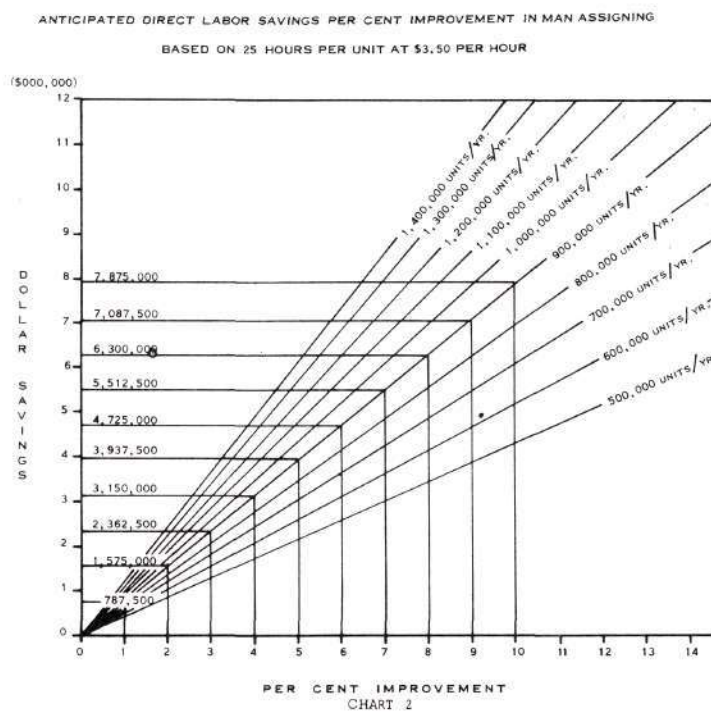


CHART 2

The computer program was written in FORTRAN, a computer code or language in which a problem is prepared for the machine in much the same way that it would be stated by a mathematician. Of particular importance to the successful development of COMSOAL was the use of FLPL (FORTRAN List Processing Language) which enables a programmer to keep track of and to manipulate many thousands of individual operations through a code system of listing and cross referencing. Another important technical feature was the combination of random selection of certain operations with rules for the conditional selection of other operations.

Conclusion

We have in COMSOAL a technique which has been tested in actual applications and has proven of significant value in solving the problem of balancing assembly lines, a large, complex and costly problem in a number of different industries. Although the concepts underlying the technique can be readily understood, the development of a working system for applying it is a slow process. We now have such a system available for possible use in any assembly line business which is not in direct competition with the client for whom we helped develop the system.

Business approach to auditing

Walter H. Soderdahl

As certified public accountants, we serve in a dual capacity. We are professional accountants and auditors, and we are professional consultants to businessmen. In this article, I want to emphasize this dual nature of public accounting as applied to our principal function—auditing. What is a good business approach to auditing? Does it present any advantages over the conventional approach? What problems are we faced with in implementing a business approach to auditing?

THE BUSINESS APPROACH TO THE AUDIT PROCESS

Understanding the Client's Business

Fundamental to any well-planned and competently performed audit is a thorough understanding of the client's business and the industry of which it is a part. The auditor needs an understanding of the business in order to determine and help resolve problems that may affect the audit. He needs an understanding of the business if he is to be helpful to the client. The requirement for understanding the client's business pervades all levels of our firm—from the junior accountant to the partner in charge—but it is obviously more critical at the top levels.

Understanding of the business is necessary in order to serve the client, and the client expects that we *will* help him. From his point of view, the help, guidance, and advice that the auditor can provide is the constructive part of the audit function and the part in which the client is interested. Any audit firm can provide him with a certificate, if one is justified. Of importance to the client is what an accountant can do for him above and beyond the regular audit.

Basically, then, the client wants management help along with performance of the audit. Now, if we were not equipped to provide such help, Touche, Ross, Bailey & Smart, and the entire accounting profession might well have a serious problem. But we do have a specialized competence in the entire accounting— not just the auditing—function. The nature of our work is such that we are required to delve into many of the confidential areas of the business. It is natural for management to want to share its problems with us. It is natural for us to help management with its problems.

To implement a business approach to auditing, what are some of the things an auditor should know about the business?

Walter H. Soderdahl, partner in our Chicago office, joined one of our predecessor firms, Allen R. Smart & Co., in 1937. He moved from Chicago to Pittsburgh in 1942 and three years later returned to Chicago, where he became partner in 1952. He is a graduate of the Walton School of Commerce, and also attended Loyola University.

1. *Plan of Organization* — Is the business run by one-man rule, or are duties delegated? What are the major areas of responsibility—manufacturing, selling, research, and so forth? What are the lines of authority?

2. *Products* — What are the various products? Are they consumer products or products sold to other businesses? What is the relative significance of each product to total sales? Are products standard or special items? What research and development are required in product development? Is patent protection important? Is styling important? What about product warranties or other risks associated with the products, as in the case of drug companies? How often are products changed, and how frequently are new products introduced?

3. *Sales distribution methods* — Does the company sell through its own salesmen or are jobbers and dealers used for distribution? Does the company maintain its own warehouses or use public warehouses? Who are the major customers and what is their significance in terms of total volume?

4. *Pricing policies* — How are different classes of customers treated? Who sets prices and how? Where are orders accepted? What are the criteria for accepting returns and granting allowances?

5. *Manufacturing* — Are goods purchased for stock or for specific orders? How are materials ordered for production? How are inventory levels determined? What is the philosophy of developing overhead rates—are they based on actual production levels, capacity, or something less than capacity? What procedures are used to control inventory? What sort of average leadtime is involved in production? And what are the risks involved in manufacturing? Knowledge in these areas is essential to the evaluation of inventories in the audit.

6. *Credit policies* — What is the philosophy of customer relations in handling of credits? Are special volume rebates involved? Is there a policy with respect to write-off of accounts? What are the follow-up procedures prior to write-off?

7. *Personnel policies* — What are major fringe benefit plans? What is the Union relationship?

8. *Management philosophy* — What is the business philosophy of management? Knowing this is important, because the approach to any engagement depends upon whether or not management has a conservative business approach, both to the operation of the business and to the reporting of earnings.

This is the kind of business background information we

consider important when making an investigation for the acquisition of a business by a client. The auditor needs to have as much or even more current information about the client's own business if he expects to direct his audit efforts intelligently. Let us assume that we can develop this kind of general business background for each of our clients. How can we then put this information to use in the conduct of our audit?

Evaluation of risks — current events

One of the first benefits to be gained from a general understanding of the client's business is the evaluation of the major risk or problem areas which should receive concentrated attention in the course of the audit. This evaluation should be made early in the audit, so that special attention can be directed to critical areas. It hardly needs saying that the risk areas of a business are usually the risk areas of the audit.

All the information received in discussions with management, the knowledge of conditions existing in the particular industry, and the knowledge of business trends generally, should be considered in our approach to the audit. For example, the auditor may learn from the president that new techniques and equipment have been developed to produce one of the company's major product lines at considerably lower cost, and that competitors have already reduced prices of these products. In this situation, the client can act in several ways. He can:

Discontinue the product;

Continue to make the product, but attempt to reduce costs by various means;

Replace the existing equipment with new equipment;

Re-locate the plant to a lower labor cost area, or obtain increased efficiency with present men and equipment.

As you can see, the financial statements will be affected in different ways, depending upon the decision made. The ultimate decision will, however, have a significant effect on the business and its financial condition. Failure to recognize this business problem in connection with the examination could be of much more significance than failure to test the clerical accuracy of inventory prices.

This kind of situation is also a test of our willingness to help the client. The auditor can either be of assistance in analyzing the alternatives with the client, or can sit back and wait for his answer. Willingness to help, per se, is not enough. In such situations, the auditor must be aggressively interested in the client's business problems and demonstrate that he can be of assistance.

As another example, the auditor may learn through professional reading programs or from other outside sources that significant price reductions are taking place in basic materials used by a client. Or, he may learn that a particular industry to which a client sells its products is depressed and experiencing many business failures.

In these instances, information about the client's business or industry affect the audit planning and audit results. The auditor might, of course, be lucky enough to discover these conditions in the normal course of his audit tests, but it would be better if he considered these matters when beginning the audit so that he wouldn't have to try to solve them the day before the report is due. Again, discussion of such matters at the start of the audit is an important way to let the client know we want to help him — and are equipped to do so.

Evaluation of risks — recurring problems

These examples have been cited to show the importance of keeping abreast of current matters affecting the client's business, thus insuring their adequate consideration in the audit. It is equally important that the auditor direct attention to problems and risk areas that are recurring in nature — again, problems which he should understand, and of which he should be aware.

Assume, for example, that a few customers represent a significant portion of the client's business. Special attention should normally be directed to the following kinds of questions:

What are the recent sales of these customers?

If the sales are contractual, what is the current status of the contract?

Are sales on a profitable basis?

What is the financial stability of the customers? How are they paying?

What is the status of unfilled orders?

As a result, the auditor's investigation may show unsatisfactory conditions which could be corrected to benefit the company. In many instances, he may even be able to anticipate an unsatisfactory situation in advance.

If risk areas are carefully appraised in advance, we will have solid assurance that the important aspects of the business have received careful attention. In general, the philosophy and practice of knowing the client's business gives assurance to the firm that our audit results are indeed good audit results. The implementation of philosophy can also contribute to our practice development program.

Evaluation of inventories

Inventories are one of the most difficult areas in any audit and probably the most difficult for businessmen to understand. Inventories are also the area in which we have our greatest opportunity to exercise common sense business judgment. Failure to make a good audit in the inventory area can often be attributed to the fact that we get so involved in the details of quantities, pricing, overhead rates, and clerical accuracy that we fail to understand the overall significance of inventories and their value to the business. For example, we have a client who runs a mink farm. As inventory, the client valued its breeder (female) minks at what it cost to feed for the first two years of its life. This valuation was not in excess of the average selling price of all pelts. However, prices for female pelts were considerably below those of male pelts, and below the cost amount included in the inventory. Since the minks were carried at this cost value until the end of their productive cycle (approximately four years) the loss was deferred in inventory until they were sold. During the audit, we devoted considerable effort to establishing the correct cost value but almost failed to recognize business aspect — market value for female pelts was below cost.

In auditing inventories, knowledge of the client's business usually assists the auditor in many ways. For example:

The normal first step in auditing inventories is to establish that quantities are accurately stated. Here, a knowledge of warehouse capacity will enable the auditor to determine that total quantities are not unreasonable on their face. In the case of warehouse inventories of finished goods, a knowledge of the location of specific warehouses and sales trends of the territories served will often enable him to judge the reasonableness of the quantities of specific items. In the case of raw material inventories, a knowledge of the productive capacity of the particular plants involved will help in judging overall reasonableness. An understanding of the components of the principal products will help to judge the reasonableness of in-process inventory. These evaluations are more important than many of the normal audit tests, but nevertheless we cannot ignore the more prosaic tests which are part of the required auditing procedures.

Once quantities are established, the valuation of such quantities must be challenged. Here again, knowledge of the business is important as a supplement to examination of vendors' invoices, review of labor and burden standards, and computation of usage and turnover factors. For example, a comparison of order backlog and sales trends to finished goods and related raw material components on hand often reveals unbalanced conditions and resulting obsolescence. Similarly, a review of perpetual inventory records may reveal items with little activity requiring further investigation. A client's future plans to discontinue an entire product line or to introduce a new line can often reverse an opinion formed from traditional audit tests and study of historical data. Changes in key personnel in the sales, production, merchandising, or engineering area may be a clue to impending changes in product policies that will affect inventory valuation. A thorough understanding by the auditor of the company's policy of dealing with obsolete and slow-moving items is also necessary to determine the scope of his investigation.

Having discovered quantities of inventory that are obsolete, the auditor faces the valuation problem. In some unusual instances obsolete items should be valued at zero. Normally, however, items must be priced somewhere between cost and zero value. In such cases, valuation requires an extensive knowledge of sales and pricing policies, as well as knowledge of methods of distribution.

In some cases, it may be possible for the client to dispose of the obsolete items by offering them to regular customers at reduced prices. In other cases, this would run counter to the client's sales policy and the items would have to be sold outside of regular channels or scrapped. Knowledge of the client's business in these circumstances will help in determining a reasonable inventory valuation.

Advance planning of physical inventories and their compilation is essential, and many times will provide the auditor with opportunities to recommend improvement in the company's internal control system or in its inventory procedures. This advance planning can provide useful information which will help direct the audit effort to important areas of the inventory which need attention.

This advance planning paid off for us recently in the case of a company which stored its machine repair parts in warehouses of subsidiary companies in approximately 40 locations. The inventory was completed for each subsidiary company, but because of the many parts involved, no one had considered obtaining consolidated information of the total quantities of parts on hand at all locations. We recommended that IBM techniques be used for the inventory, with the result that consolidated inventory information was available for the first time. This gave management data on the status and location of repair parts, and provided us with information on the important items in the consolidated inventory. The investigation of one item totaling $90,000 in the consolidated inventory revealed that the counts had been recorded in units, whereas the price used was for a package of three units. Management was pleased with the results of this new inventory technique, and we benefited in the audit as well.

Audit of property, plant, and equipment

In most manufacturing companies, land, buildings, and equipment constitute the largest asset on the balance sheet, yet the auditor generally spends little time evaluating the business problems of these assets. He often devotes most of his time in the audit to the routine aspects of vouching additions, checking clerical accuracy of the computation of depreciation, application of consistent depreciation rates, and recording beginning and ending balances in asset and reserve accounts. Undoubtedly, what happens is that when he has accomplished all of these tasks, the budgeted time is exhausted and he has little time for the more important aspects of the audit of properties. In order to provide this time, the client should be asked to furnish details of the additions and applicable vouchers, details of the deprecia-

tion computations, and summaries of changes in the asset and reserve accounts. If this is done by the client, all that may be necessary for the auditor to do is review the information for reasonableness and make limited tests of the supporting details.

The auditor often fails to make adequate review of internal control over properties, particularly the controls over machinery and other equipment. It is very probable that he can make recommendations for improvement of internal control of these assets, if he makes an adequate investigation. For example, the following questions should be asked and the answers evaluated:

1. Does the company maintain detailed property records? If not, why not? It may become necessary to establish such records for 1962 and subsequent years' additions because of the investment credit provisions of the Internal Revenue Code.

2. How often are property records checked by complete physical inventories of equipment? In my opinion, this should be done at least every five years.

3. Are differences disclosed by physical inventories adequately investigated?

4. What controls exist over the disposal of properties? Who authorizes disposals, determines prices, terms, and so forth?

5. Are fully depreciated assets being controlled even though removed from the accounts?

6. What controls are maintained for equipment sent out for repair or rehabilitation, and how effective is the policing job?

7. If many items are disposed of at one time, is it the practice to take a complete inventory of such items so that adequate records are established for items sold?

One of our clients recently experienced a defalcation as a result of equipment presumably sent out for repair but never returned to the plant. An officer of the company initiated the orders to send the equipment out but there was no follow-up to determine why the equipment was never returned. Property records were maintained, but it was not the practice to regularly schedule physical inventories. Had these controls been operating, it is likely that the manipulations would have been disclosed.

There are important business aspects related to properties which should be considered. Here again, background information of the business is essential. Some of the matters that should be considered are:

1. Are the useful lives of the depreciable assets reasonable? The new guideline lives and the related reserve ratio tests are a useful tool. How do overall depreciation rates compare with other companies in the industry?

2. Are records of properties adequate for insurance purposes? Who determines insurance coverage, and on what bases are values established?

3. Are machines kept in a good state of repair, or do production records indicate considerable down-time due to condition of equipment?

4. Has there been any loss in value of physical assets because of technical obsolescence, new products, discontinuance of products, or for other reasons, which has not been provided for through depreciation?

5. When the company manufactures machines for its own use, is the cost capitalized higher than the cost of the machine if purchased from another manufacturer?

It is important that properties be investigated each year from a "business" viewpoint to make certain that any loss in value of assets is provided for in the accounts. Failure to recognize such loss in value is as serious as understating the reserve required for bad debts or unrecorded liabilities, since the net worth of the business is affected. The auditor must have a thorough understanding of the business and stay close to its problems if he expects to disclose such items. The business approach to auditing not only helps use to perform our audit function well; it also helps us help our client.

Management services and the business approach to auditing

Management services is no longer a new concept or a new service with our firm. While we have a long way to go before we will develop the full potential of management services work, this added capability improves our business approach to auditing in a manner which is helpful to our clients and contribute to the growth of the firm. Let us contrast the business approach to a typical audit problem with the green eye-shade approach.

All of us have been faced repeatedly, with a situation where, for example, the client takes several months to price his inventory because of the lack of adequate records. The final result is anxiously awaited because no one has any idea of the profits for the year. The final inventory listing is a gem—with prices coming from such diverse sources as cardex files, vendors' invoices, obsolete cost studies, engineers' estimates, and purchasing agents' guesses. Obsolescence is apparent, but no organized intelligent approach has been given to its evaluation. The green eye-shade auditor wrings his hands, prepares reams of schedules to test the prices, skims around the edges of obsolescence, concludes that the errors offset each other and, with some trepidation, signs the certificate. Some of the bolder ones have been known to gather their courage

and notify the controller that he ought to do something to improve the pricing next year.

The auditor with the business approach deals with the pricing problem more systematically than his counterpart, and probably in less time. He goes more deeply into the obsolescence question, not only to appraise its amount but to determine what caused it and how to prevent it in the future. He views the entire situation, not just as a messy audit problem, but as a serious business problem in management information and financial control. He meets with the client's financial and operating people to discuss and explain the benefits which can be obtained from adequate cost accounting, production and inventory control, and managerial financial statements.

Obviously, none of us take the green eye-shade approach. But, on the other hand, too few of us really go all out for the business approach and actively and confidently promote our capabilities to assist management in

the installation of adequate cost and inventory controls and management information systems.

A common aim in both management services and the business approach to auditing is to serve the client. To do this, however, our conclusions and recommendations must be communicated to him. Where possible, face-to-face communication is the most effective way to explain and sell any idea. But, where personal communication is not possible or convenient, we must communicate in writing to get our ideas across to the client—the internal control letter or letter of recommendations.

Effectively used, the letter of recommendations can be one of the most useful means of communicating with and helping a client. Conversely, it can also be dangerous—especially if it reports only trite recommendations for improving control over cash.

To be sure, a businessman is interested in knowing whether the system of internal control is reasonably adequate to prevent fraud and manipulation in the accounts. But he is more interested in knowing how he can reduce costs and increase income, improve the capabilities of his personnel, upgrade the adequacy of his accounting system, and whether he has taken every tax advantage to maximize his cash flow.

If the auditor adopts the business approach to auditing, he will have plenty of useful information to put in the letter of recommendations—information in which the client will be interested, and that he does not already have. The auditor will set forth areas in which management services consulting can be of help to the client. He will point out areas of financial management in which the clients' practices can be improved—the management of credit, obligation of cash balances, purchasing practices, cash discount practices, and many others. With this kind of positive information, writing a letter of recommendations is a pleasure, rather than a chore.

DEVELOPING THE BUSINESS APPROACH

Let us now turn to the question of how the auditor can develop the business approach to auditing. How does he acquire knowledge about the business of his clients which is both desirable and necessary? Perhaps the first and best means of acquiring this knowledge begins when he first acquires the client.

New engagements

New engagements present an opportunity to implement the business approach to auditing without the need for breaking with past patterns. The opportunity for the auditor to learn as much as he can and should know about a new client's affairs is frequently passed up because of the cost involved. We should put forth our best efforts to gain a thorough knowledge of the business despite the added cost.

Management services and tax personnel should participate extensively in the initial review of a new client, since frequently they find there are additional opportunities to serve the client in these special areas. Even if addi-

tional services are not obtained in the early stages of the engagement, a favorable relationship will have developed which should serve us well in future dealings with the client. The additional cost is well worth the effort of serving the client well.

Increasing our competence

Now, how can the auditor increase and extend his competence when the client involved is an established client? The best way to keep abreast of the affairs of a client is through continuous contact during the year.

As a goal, the auditor should strive to deal at top levels of management. In all cases, he should know the president and other top officers, and should appear before the Board. He should try to make their personal acquaintance and to understand their views of problems and operations.

The practice of having the client send us copies of the monthly financial statements gives many opportunities to discuss problems or trends that are apparent from the statements. It is important that a top review of these statements be made each month so that any developing problems are brought to light. In many instances, a review and discussion of the monthly statements will result in the opportunity for further service in tax or management services.

It is important that the auditor take every opportunity to ask questions about the business. He should try not to appear inquisitive but in fact he should be. He should inquire into and understand business reasons behind each major transaction. For example:

What is the purpose of new financing arrangements?

Why is more stock to be sold?

Why was stock reacquired?

Why were acquisitions made?

What is the business or tax reason behind allocation of parent charges, and what is the business justification for the treatment?

At the top level of a company, the auditor should deal with problems as business problems first. He does not need to translate them to audit and tax consequences, at least at the onset. As auditors, we should encourage the president and even subordinate personnel to talk to us "off the record" so we can deal with their problems strictly on the business and moral issues involved. We will not compromise our independence by this; we will, in fact, develop a much better insight into the kind of people who run the business. Businessmen want someone to talk to about their affairs; we should encourage them to come to us first.

Staff training

If we examine the techniques used in managing our audit engagements in recent years, we find that not enough has been accomplished toward development of business concepts. The communication of audit problems between the staff assigned to an engagement and the supervisory personnel having primary responsibility for it is often characterized by the same kind of deficiencies we are so quick to note in the procedures of client companies. All too frequently, this communication consists entirely of several repetitious, semi-legible layers of memorandums covering the scope of the audit, but little, if anything, about the business itself or its problems.

In the past our audit training programs have emphasized the internal control aspects of the audit by use of illustrative good audit programs. Similar effort has not been devoted to teaching the business approach to auditing. This would be effort well spent.

In such a model business approach program, several things might well be included. The risk areas in the audit of assets and liabilities and how to deal with them could be spelled out. Current information as to special problems should be communicated as a supplement to the audit program and used on a one-time basis. In addition, it would be beneficial to have a concise summary of background information of the company prepared for inclu-

sion in the program. This need not deal with specifics, but should cover the major areas of the business. If audit programs include this kind of information, the auditor will soon learn the significant business aspects to be considered in an audit.

The important financial ratios used by banks and the business community to evaluate credit risks and the relative success of enterprises should be of interest to us—especially a comparison to industry averages, such as those published by Dun and Bradstreet. The client's management will appreciate our ability to point out unusual relationships or trends of which they may not be aware. Yet, most of these ratios are completely ignored in our audit work papers or memos. It should be very helpful, and require relatively little time, to compute applicable ratios each year for our audit clients and record them in a trend format. Computing and recording the ratios would not, in itself, accomplish a great deal. Understanding the reasons for year to year variations between company and industry ratios would help us know more about the business and would aid in pinpointing problem areas.

Consideration should be given to preparing a statistical summary of basic operating and financial data (comparative data in either trend or graph form) to be used in connection with all audits of manufacturing and merchandising companies for submission with the draft audit report for final review. Such a summary would highlight the important business aspects and set forth significant trends of the business in compact form. Explanations of variations from the prior year could be set forth in the memorandum accompanying the data sheet. Only significant relationships should be shown, and in the case of companies with several operating units (divisions or subsidiaries), information should be shown for significant units, as well as in total. The data sheet could be carried forward from year to year if prepared in trend or graph form; otherwise, a comparative data sheet could be prepared each year.

By experimenting with the use of such statistical summary, the auditor may perhaps discover that many of the reporting and training techniques which he recommends for businesses can be applied to the internal audit reporting problem. Using the summary approach might not only save review time, but would compel the auditor to be more precise in analyzing and interpretating the significance of audit tests.

A business problem questionnaire is another device which can significantly improve the business approach to auditing. Such a questionnaire could list queries which would force us to take an overall business approach. Requiring its completion as part of an audit would both train the staff man and, on its completion, teach him more about the business.

If we were to allow present conditions to prevail we would be, by default, failing to gain the understanding we need of the important business problems of each client's audit. Perhaps more important, we are failing in the development of ourselves as professional accountants.

To summarize, we must have a thorough understanding of our client's business if we are to do an intelligent, businesslike audit which can provide the kind of service our client needs and expects. Adequate advanced planning and communication to our staff of the business problems of each client are an essential part of assuring that the important areas of the audit are covered. By developing a closer relationship with our client and an understanding of his business problems, we create opportunities to expand our tax and management services activities. Let us all follow the "business approach to auditing"—thereby becoming better auditors and better business consultants.

The Policy Group

The Policy Group met in New York on March 26. They are responsible for the basic policies of the firm, including the admission of new partners. Members are elected annually. Shown above are (front) Robert Beyer, Managing Partner; John McEachren, Chairman; John Crouch, Kansas City; Paul Hamman, Detroit; Kenneth Reames, Detroit; (middle) Donald Bevis, Senior Partner; Jackson Smart, Chicago; Richard Stratford, Los Angeles; Robert Trueblood, Vice Chairman, Chicago; (top) Edward Tremper, Seattle; William Werntz, New York; Palmer Tang, Minneapolis; Karney Brasfield, Washington.

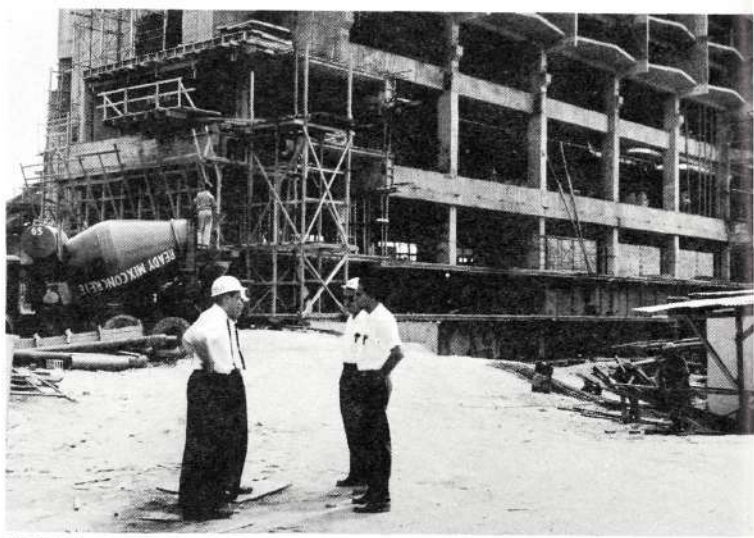
Management in

Typical of the pooling of talent among offices, the projects pictured here show two specialists from our New York office at work with clients in San Juan.

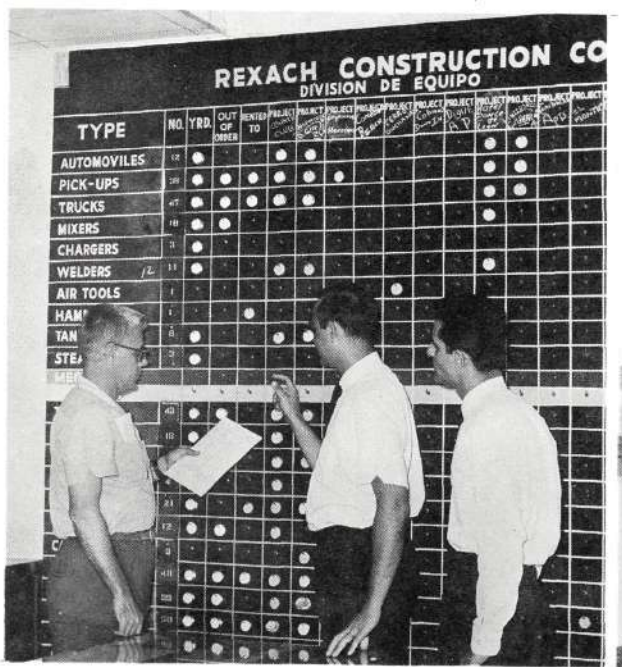
PETER HOLLEMAN at Rexach Construction Company . . .

Rexach was originally established by members of the Rexach family in 1933. Today, as Puerto Rico's largest construction company, its contributions to the building and development of its country are innumerable. Its activities, which cover every phase of construction, fall into three major categories: residential construction, general construction and related activities, and real estate development. Among other things, the company is noted for its work on highways and bridges. In the past year Rexach crews started work on the Caparra Interchange, the Caquas By-Pass and the Hormigueros-San Germain Highway. Pictured in the background (right) is the company's Country Club Housing Development. Located in the Rio Piedras suburb of San Juan, the project was started in 1957 . . . when complete, there will be some 5,700 family units and 1,000 high-rise condominium apartment units on 1,600 acres of land. The design includes schools, shopping centers, park and play facilities, and 25 acres for light industry.

The Ponce de Leon Hotel will be only one of many hotels and apartments that have been built by Rexach. Here project manager Steve Bird shows our specialists the high rise construction before discussing organization and procedures for this type of project.



Vice president Norberto Garcia (left) explains the large wall chart that is used to control the location, scheduling and maintenance of equipment.



One goal of the procedures manual was standardization of accounting procedures in the projects. Peter Holleman interviewed a project clerk on accounting procedures followed in the field.

Services

Puerto Rico

On the site of the Country Club Development, Rafael Rexach, vice president, explains the organization and procedures of high volume construction to Peter Holleman (left).

Rafael Lomba (left) from the TRB&S office in San Juan, makes a periodic review of the Rexach engagement with Peter Holleman. Victor Vega (right), also TRB&S, has Rexach audit experience and participated in the engagement to gain experience in management services.

Accurate cost estimates are essential when bidding for a job. Vice president Edgar Navas (right) explains estimating procedures to Pete Holleman (left) and Rafael Lomba.

Each phase of our engagement was discussed with top management. Final results were approved by president Gabriel Rexach (left), Henry Rexach, chairman of the board, and Hans Rexach, executive vice president.

Gordon Mills
at Manuel San Juan Company, Inc. . . .

Manuel San Juan Company, Inc., client of our San Juan office, is the largest general insurance agency in Puerto Rico and one of the largest in the Western Hemisphere. They were hosts recently to Gordon Mills from our New York office, who spent nine weeks there working to develop a standard operating procedures manual for their accounting department.

Gordon Mills (right) goes over a proposed change in operating procedure with Orlando Lomba and the executive vice president, Manuel San Juan, Jr. (seated). The company was founded by Mr. San Juan's father, shown in the portrait in the background.

Pedro Díaz-Molina and Gordon Mills study reports with Orlando Lomba, administrative manager of the insurance agency, and Rafael Lomba, partner in our San Juan office.

Pedro Díaz-Molina (right) from the San Juan office of TRB&S did the initial interviewing. Here Hector Rodreguez explains statements and reports from the tabulating section.

Controller Eduardo Saldaña (left) briefs Gordon Mills on the procedures followed in reviewing monthly listings of the accounts receivable trial balance.

With the Alumni

Atlanta—Robert V. Wagner, Jr., formerly of the Atlanta office staff, is now financial analyst with Ford Motor Company in Detroit.

Chicago — Roland Felleson and Willard Gebhart have resigned their positions on the Chicago audit staff to accept assignments with a client of the firm, Stanray Corporation. Roland will work in the Chicago office and Bill in Little Rock, Arkansas for the Traveler Division.

Two other audit staff members have accepted positions with clients — Roland Stone with the Greyhound Corporation and Joseph Touve with Interstate Vending Company. Fred Sheehan, an audit staff member for the past four years, is now employed with Montgomery Ward.

Cleveland—Shelton J. Sweress resigned to take a position as office manager for Louis L. Schaffer, Inc.

Dayton — William A. Enouen has been promoted to assistant to the group vice-president (Board and Related Operations) of the Mead Corporation.

Denver — Gerald Katz resigned March 8 to accept the position of assistant controller of the Denver division of Worthington Corporation. Roy N. Hollaway left on April 15 in order to become assistant controller of Capitol Life Insurance Company in Denver. Jim Gehres in now in the treasurer's office of Shwayder Brothers, Inc.

Detroit — Lynn A. Townsend, former Detroit partner . . . now president of Chrysler Corporation . . . received the annual Business Leadership Award from the Graduate School of Business Administration of the University of Michigan on May 3. The award was established to honor a "Businessman of accomplishment who has shown an understanding of the responsibilities of business to society and an interest in business education."

Donald Nellis has accepted a position as Assistant Controller of Evans Products Company. He left our firm on May 15, and will move from Detroit about June 1st. He will be working in the executive offices of the Company in Portland, Oregon.

Executive office — Curtis Verschoor is now with Singer Manufacturing Company, where he heads up the internal audit function at the corporate level.

Grand Rapids — Robert J. Lyzenga has resigned to take a position with a local firm in Grand Rapids.

Kansas City — Ralph L. Waters, member of the Kansas City audit staff since 1954, resigned on April 15 to take a position as Controller of Kansas City Terminal Warehouse, a client. Ralph received a gift from the partners and was honored at a picnic on May 18 at Lake Jacomo.

Minneapolis — Allan Fonfara, who was in the Minneapolis office from 1957 to 1962, has been appointed assistant treasurer of the Marquette Corporation. Arlen Missling resigned to become controller of Kimco, Inc., a recently formed investment company, a client of the Minneapolis office. Jerald Grande of the tax department resigned in April to join Pemtom, Inc. a construction company recently organized by Bruce Thomson, also a former member of our staff.

Dr. Gordon B. Davis, formerly with the Management Services Central Staff, has been promoted to associate professor at the University of Minnesota. His article on "Simulation of Finance Company Operation for Decision Making" was recently published in "Management Technology."

New York — Martin Berkowitz, formerly of the New York office, is now controller for the Reliable Steel Co. in Los Angeles. Irving Allen, formerly of the New York office is now with the Litton Systems internal audit division in Los Angeles.

Philadelphia — Walter S. Smith resigned to accept a position as assistant comptroller of Fidelity Mutual Life Insurance Company.

Pittsburgh — Gary B. Fink, a senior on the audit staff, left the firm on March 8 to become assistant to the controller at McCreary Tire & Rubber Company, a Pittsburgh office client.

Applause

Atlanta — E. A. Duff Macbeth was the speaker at the March 27 meeting of the Atlanta Chapter of the National Society for Business Budgeting. His subject was "A CPA's View of Budgeting."

Boston — Notice has been received from the Massachusetts Society of Certified Public Accountants that Hugh Dysart, Jr. has been elected one of the directors of the Society; he was also elected chairman of the Committee on Cooperation with the Bar Association. In addition he has been appointed chairman of the Finance Committee of the Republican Club of Massachusetts.

Donald C. Wiese, supervisor of the tax department, has been elected chairman of the Committee on Ethics in Tax Practice for the State Society of CPAs. In March Mr. Wiese participated in a panel program on a local television station, answering questions on federal income taxes which were telephoned in by the viewing public throughout the broadcast. He also spoke before the Lions' Club in Kingston, Mass. on "Recent Developments in Federal Income Taxation."

Paul Gerry, as chairman of the Tax Information Subcommittee of the Public Relations Committee of the Mass. Society of CPA's, assisted that association in compiling several articles regarding tax information and contacted newspapers throughout the state to arrange for the publication of these articles. He was assisted by Robert Margil of the Boston office tax department. Mr. Gerry also acted as coordinator recently for two television programs on state taxes.

Chicago — Robert Trueblood participated in a film of a seminar which is to be included in a one-day EDP orientation conference for top executives of AT&T customers and in a three-day EDP conference for other officers of customers and potential customers. The final script will run between a half hour and an hour. Ed Bursk, editor of the Harvard Business Review, was moderator. In addition to Mr. Trueblood, members of the panel included Dean Willis Winn of the Wharton School of Finance and Commerce at the University of Pennsylvania; John Magee, Vice-Assistant Controller of AT&T; Mike Wolantes of Bell Labs; and Dick Neuschel of McKinsey & Co.

As Past Chairman of the Board of Examiners in Accountancy of the State of Illinois, Allen C. Howard spoke on "Grading the C.P.A. Examination in the State of Illinois" at a "preview" clinic for examination candidates. This clinic was sponsored by The Illinois Society of Certified Public Accountants at the Loyola University Student Center on Saturday, April 13th.

At the March 19th meeting of a group of corporate executives participating in an executive development program under the direction of industrial psychologist Wendell Knowles, Stephen Finney discussed "Profitability Accounting."

Justin Davidson addressed the American Management Association at its Finance and Orientation Seminar held March 6th, on the subject "Using Scientific Techniques as Analytical Tools in the Acquisition Process."

As guest speaker at the monthly meeting of the Society of Die Casting Engineers on May 2nd, Donald Hausman spoke on "How the New Travel and Entertainment Rules Affect You."

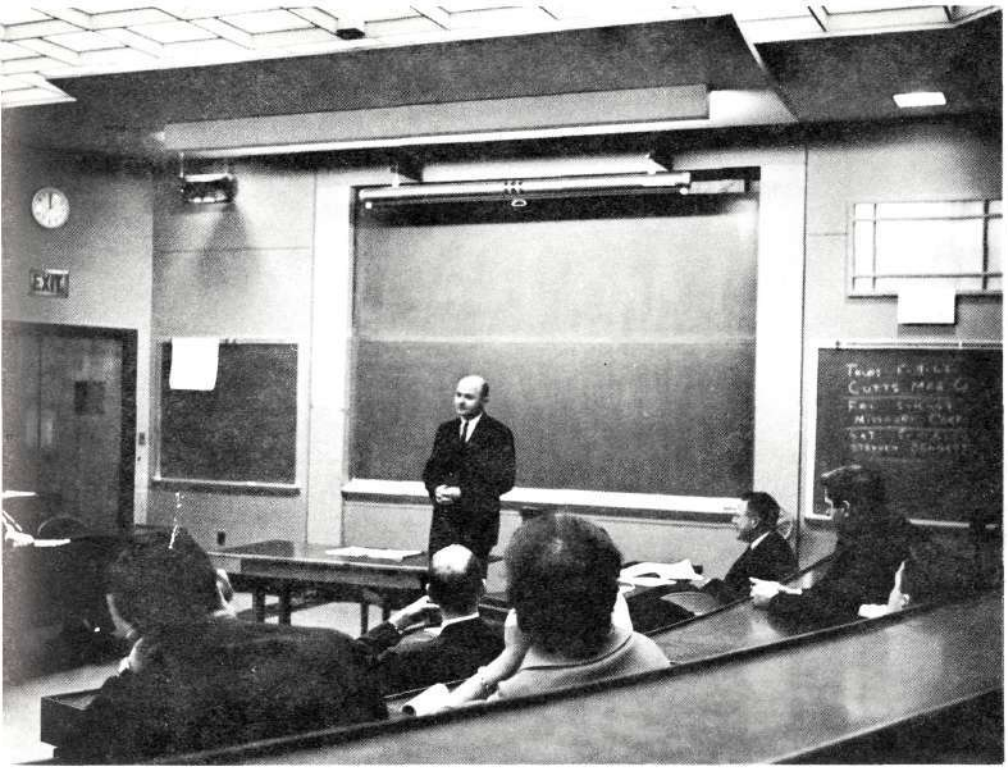
Raymond Revers participated in the Career Days observance held for the sophomore class of Loyola University on the 2nd of May. He addressed interested students on "A Career in Accounting." On May 15th, he acted as discussion leader at the Institute of Internal Auditors' meeting. The topic considered was "Sales Order Processing."

Christopher Bohus, Carroll Ebert, Richard Gallagher and Raymond Revers attended the Management Conference conducted by the University of Chicago at McCormick Place on March 27th.

James R. Bragg has received the Data Processing Management Association's Certificate in Data Processing. In order to receive this professional certificate, one must pass an examination encompassing a wide range of subjects considered mandatory for competence in the field of data processing, including statistics, mathematics and various types of automatic data processing systems and methods.

Cleveland — Frank Brcak, Jr., supervisor of the tax department, was elected president of the "Downtown Toastmasters Club."

Dallas — Alan Roberts participated in a panel discussion before Baptist College and University financial administrators from the Southwest Area on the 22nd of February. The conference, the first for those administrators, was hosted by the Annuity Board of The Southern Baptist Convention, a Dallas office client, and annual conferences are planned for the future. The panel discussion was the final item on the program and was designed to



Dave Fleisher (management services in St. Louis) is shown speaking to 30 graduate retail students and a number of the faculty at the Harvard Business School on May 3. His talk was part of the Tobe Lecture Series, a series of annual lectures given by authorities in the retailing field. Dave's subject was "Management Reporting in Department Stores." A luncheon was held at the Harvard Faculty Club for all who participated and a round table discussion followed.

answer questions not covered in earlier sessions. Although other areas of financial administration and planning were to be covered, the majority of time was spent discussing income taxes.

Dayton — Franz Schubert appeared before two senior classes at Chaminade High School to answer tax questions regarding individual income tax returns. In March, he appeared as a panel member on a thirty minute television program on which questions most frequently asked by taxpayers were discussed.

Dane Charles recently gave a talk to the sophomore business students at the University of Dayton concerning careers in public accounting.

H. J. Olt addressed the Dayton-Cincinnati group of Tax Executives Institute on "Implications for Your Business of 1962 and 1963 Proposed Tax Legislation and Recent Administrative Legislation" at the monthly meeting held in Dayton.

Donald Custer, chairman of the Dayton Chapter Audit Committee, ably assisted by Harry Flasher and a group of accountants that included ten from the Dayton office, has been busy with the annual examinations for Junior Achievement companies. There were forty-one companies to be audited. At the annual J. A. Award Banquet, Don presented awards and certificates for the best job performed by a treasurer.

Denver — On April 2 William Werntz of the New York office was the guest speaker at the meeting of the Securities Regulation Institute sponsored by the University of Denver Law School. Attending, in addition to all the regular participants of the course, were a number of clients of the Denver office, lawyers, bankers and stockbrokers. A cocktail party and dinner was held at the 26 Club after the meeting.

On April 25, Raymond Bloom was a guest speaker at the annual meeting of the Colorado Society of Certified Public Accountants at the Broadmoor Hotel in Colorado

Springs. The talk, concerning the Statements on Auditing Procedure No. 32, was entitled "Qualifications and Disclaimers." Charles Husted served as discussion leader following Mr. Bloom's talk.

On February 18 Donald G. Sinsabaugh was a panelist at a meeting of the Colorado-Wyoming Chapter of the American Association of Hospital Accountants. The subject under discussion was "Internal Control."

Carleton H. Griffin gave a luncheon talk to the Denver Exchange Club on March 14 on "Tax Problems of Closely Held Businesses." On March 28th he gave a talk sponsored by the Colorado National Bank before a group of 30 Denver executives concerning the tax aspects of pension plans. Mr. Griffin has been appointed a member of the Board of Directors of the Colorado Society of Certified Public Accountants.

Earl Marcus was a member of a television panel which met on March 27 to answer questions on individual income tax matters phoned in by viewers.

On April 29 Donald G. Sinsabaugh and Russell E. Palmer conducted oral examinations in accounting for bachelors degree candidates at Regis College in Denver.

Detroit — Edwin H. Hicks was a member of a panel answering tax questions at a meeting of the Metropolitan Detroit Chapter of the Michigan Association of CPAs, held in the McGregor Memorial Center at Wayne State University.

Kenneth S. Reames addressed the Detroit Mortgage Bankers Association on March 21 on "Travel and Entertainment Expenses." Mr. Reames also spoke on "Expense Accounts Under the 1962 Revenue Act" at the Michigan Savings and Loan League's Management Legislative Conference in Lansing on March 27.

Daniel J. Kelly led discussions on "Planning and Controlling the Investment in Inventory" and "Selection of Costing Methods for Inventories" at a National Association of Accountants seminar in Detroit.

On March 12, Donald Jennings spoke to the Minneapolis Chapter of the National Association of Accountants on "Profitability Accounting."

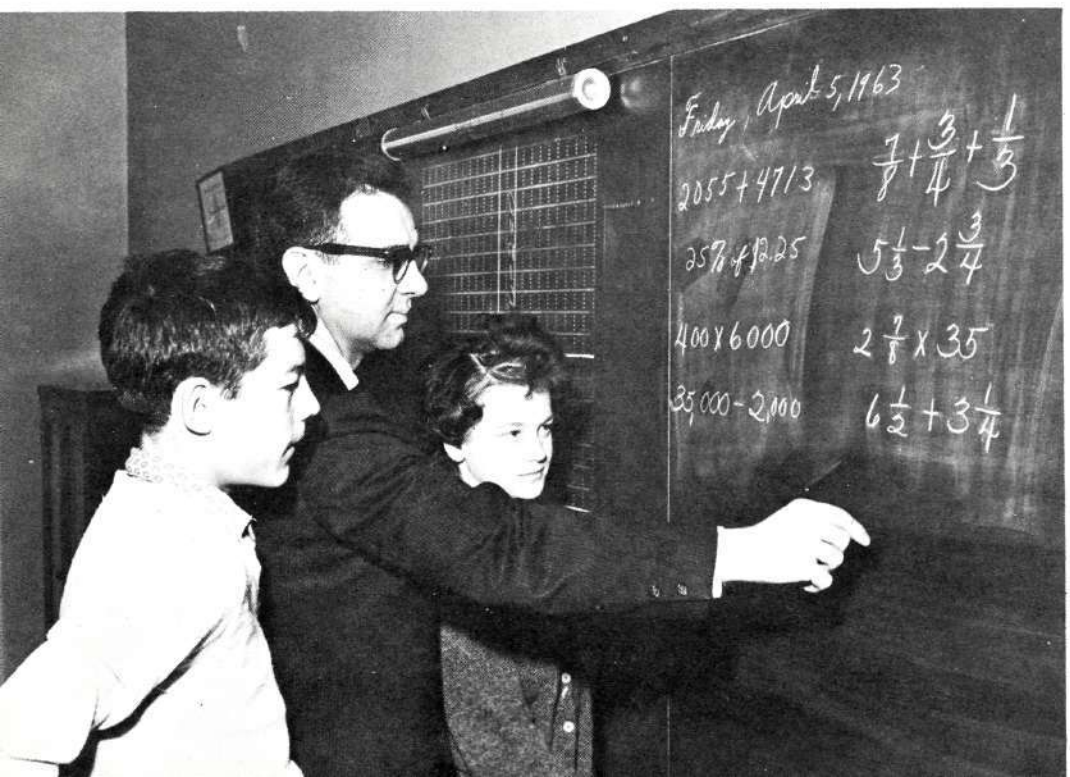
William S. Woodman served as moderator on a panel which discussed "Case Problems in Municipal Accounting" at the thirteenth annual Municipal Finance Officers Training Institute held at the University of Michigan.

Harvey E. Schatz addressed the Motor City Chapter of the Systems and Procedures Association on "An Accounting System for Planning and Control."

John F. Keydel, club president, was program chairman at the Midwest Business Conference held by the Harvard Business School Club of Detroit on April 3.

John C. W. Schaie discussed "Management Reports" before the Detroit Chapter of the Systems and Procedures Association.

Donald A. Curtis participated on a panel at the April 2 dinner meeting of the Society for the Advancement of



Business Arithmetic

Joseph DiMario gives a lesson in arithmeti at Schenley High School in Pittsburgh. He substituted for a day so that a Schenley teacher could attend meetings of the National Council of Teachers of Mathematics. Watching their new teacher are Mark McGuire and Sallylou Haas.

Management in Detroit, attended by members of student S.A.M. chapters. Mr. Curtis' topic was "The Consultant as a Tool of Industrial Management."

Donald R. Wood and Donald A. Curtis conducted one of ten seminars held at the Midwinter Conference of the Systems and Procedures Association. Their subject was "Production and Inventory Control."

Rosemary Hoban, manager of the tax department in the Detroit office, was cited as one of five women meriting extra applause in 1963 by the Detroit Skyliner Magazine in connection with their "Salute to Women Who Work Week."

Executive Office — Donald J. Bevis was selected for special national recognition by Beta Gamma Sigma on the occasion of their 50th anniversary. He has also been appointed to the following: the Committee on Uniform Accounting of the United Community Funds and Councils of America; the Project Advisory Committee of the Uniform Accounting Project of the National Health Council and the National Social Welfare Assembly; and Chairman, Accountants Division, National Fund for Medical Education.

Wallace M. Jensen spoke at the Great Plains Federal Tax Institute on May 9 at the University of Nebraska. His subject was "The Sharp Edge of Thin Corporations."

An article by Robert Beyer is featured in the June issue of the Journal of Accountancy. Entitled "Integrated Financial Services," it deals with the challenges and opportunities created by the postwar revolution in information technology. Mr. Beyer also spoke at Harvard University recently. His address, given before the second year class in financial accounting, was on Profitability Accounting.

On March 28 Eli Gerver spoke at the District Accounting Conference of the Milk Industry Foundation and International Association of Ice Cream Manufacturers. His subject was "Business Deductions." He also participated in a tax discussion meeting at the Committee on Federal Taxation on May 1st. The subject was "Problems Encountered Working with the New Investment Credit and Depreciation Rules."

Joseph R. Levee presided over the international meeting of the New York State Society of CPAs, on May 9th. . . . Mr. Levee is Chairman, Committee on International Taxation. Mr. Levee has been appointed the firm's representative on an Ad Hoc Committee comprised of a representative from each of the national CPA firms to advise the Treasury Department on regulations concerning earnings and profits and certain other aspects of the Revenue Act of 1962 affecting international operations. On December 19, 1962 he participated in a program on "What's New in 1962" regarding foreign income and profits in a program for the New York State Association of C.P.A. Candidates, Inc., organized by the Federal Taxation Committee of the New York State Society.

Richard Sprague spoke to a class on Real-Time Systems Integration at IBM on April 5th. He also participated in the Communications Managers Association of New York Data Seminar in New York. His talk was entitled "On-line Real-time Data Systems."

Joseph Buchan gave a half-day presentation on Inventory Management and Operations Research to the three-day seminar conducted by the Management Institute at Wisconsin University for midwestern members of the Business Budgeting Society. At the monthly meeting of the Retail Research Directors in New York on March 27, Mr. Buchan's subject was Retail Inventory Management.

Ken Mages spoke to the National Association of Accountants in Detroit on May 16th. His topic was "Impact of Discount Selling in Retail Margin."

Grand Rapids — "The Care and Feeding of Your Outside Auditor" was the subject of an address given before the Grand Rapids Society of Women Accountants by Richard W. Lamkin.

At the February 19th meeting, Robert P. Fairman spoke on "New Tax Laws."

Houston — C. A. Blankenburg has accepted the chairmanship of the Finance and Budget Committee for the 1964 Convention of The Financial Analysts Federation.

Herbert J. Brewer was discussion leader for a course in Generally Accepted Auditing Standards sponsored by the Houston Chapter of the Texas Society of CPAs on May 3 and 10. His session was "Standards of Field Work."

Houston — Ramon J. deReyna was appointed social chairman for the Houston Chapter of the Institute of Internal Auditors for the current year.

Owen Lipscomb participated in the fourth session of the Estate Planning Conference for Women at the University of Houston. Mr. Lipscomb's topic was "Taxes in Estate Planning." He also appeared before a noon meeting of the Tax Executive Institute and spoke on "Investment Credit." Mr. Lipscomb's speech before the Estate Planning Council dealt with the subject of "Travel and Entertainment."

Thomas C. Latter was the principal speaker at the general sales meeting of Mail Well Envelope Co. His subject was "Travel and Entertainment." He was also a speaker

at the annual Career Conference of the Milby Senior High School. The Tax Panel concerning "Changes in the Tax Law" at the January meeting of the Greater Houston Retail Controllers Association, of which Mr. Latter was a member, was rated the third highest in the nation in material and manner of presentation by the Retail Controllers' Congress.

Los Angeles — Neil R. Bersch gave speeches to the Los Angeles County Savings & Loan Managers Association, January 30; The Wilshire Sertoma Club, February 6; Management Conference of the California Savings & Loan League, in Palm Springs, February 18; and the Los Angeles County Savings & Loan Controllers dinner on March 19. The subject of all these speeches was "Travel and Entertainment Expenses."

James M. Crosser was panel chairman of the Los Angeles Chapter of the California State Society of Certified Public Accountants meeting on May 22. Discussion subject was savings and loan accrual accounting.

Frank Daft was appointed to the Certified Public Accountants Examining Committee of the State Board of Accountancy, State of California, in April.

Memphis — Clinton R. Pearson, Roy L. Gates, Don F. Stark and Kenneth J. Gordon have been selected by the Board of Directors of the Tennessee Society of CPAs to serve as consultants on the CPA Consultation Service, a recent innovation of this society.

Minneapolis — Carl Pohlman was elected vice president of the Minneapolis Chapter of the National Association of Accountants.

Palmer Tang has been asked to serve as an associate member of the National Association of Small Business Investment Companies Accounting and Compliance Committee. On March 6 the University of Minnesota presented a panel, of which Mr. Tang was a member, with discussion designed to interest pre-business students in selecting accounting as their major field of study. Annual "B" Day was held at the University of Minnesota on March 8. Mr. Tang represented the Minneapolis office in these activities.

Clarence Holtze, Kenneth Stocke and George Maas are currently serving as NAA advisors for Junior Achievement companies in Minneapolis.

James Pitt participated in a Tax Forum on WTCN Radio on March 3 along with another CPA and three men from the Internal Revenue Department. The panel answered questions which were telephoned in to the radio station during the broadcast.

Milwaukee — Donald Trawicki spoke to the Milwaukee Chapter — Systems and Procedures Association on "Profitability Accounting." On April 8 he spoke to the Racine-Kenosha Chapter of the National Association of Accountants on "New Developments in Budgeting."

Chester Brisley spoke to the Milwaukee Chapter of the Society for the Advancement of Management (a chief industrial engineering seminar, on "Motivating and Improving Performance within the Industrial Engineering Department." He spoke in Duluth, Minnesota to the Industrial Engineering Society on "Work Sampling." At the Presidents of Wisconsin Businesses his subject was "Increasing Efficiency of Executives." At the American Management Association Seminar in San Francisco his subject was "Work Measurement Integrated with Flexible Budgets — a Part of the Profitability Accounting Program." On April 27 Mr. Brisley spoke to the American Institute of Industrial Engineering, Youngstown (Ohio) Chapter. His subject was "Work Measurement and Profitability Accounting."

Newark — William A. Bergen, Partner-in-Charge of the Newark office, has been appointed a member of the Accounting Advisory Board of Seton Hall University, South Orange, New Jersey. He has also been elected vice-president of the Bergen Chapter, New Jersey Society of Certified Public Accountants.

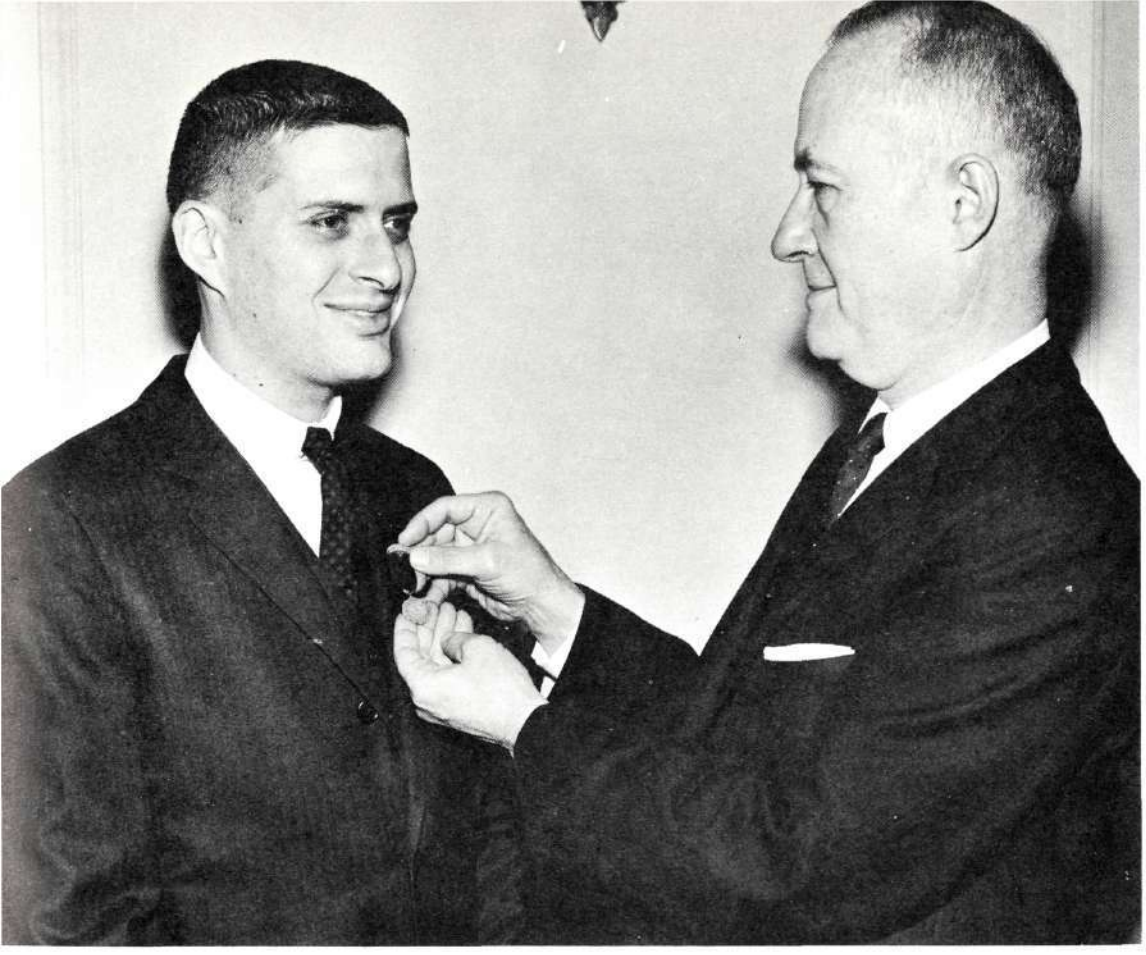
New York — William Johnson was an instructor at the First Data Processing School presented by the New Jersey Bankers Association.

Herbert Paul participated in the New York University Sixth Biennial Conference on Charitable Foundations. He conducted a panel discussion on "What To Do When The Revenue Agent Appears To Make An Audit."

On May 8, 1963, Bill Werntz was made an honorary member of the City College of New York's Chapter of Beta Alpha Psi, the national accounting honor society. He addressed the Society on the subject of "Some fringe problems" in accounting theory. He is also an honorary member of the Chapters at Ohio State University and the University of Minnesota.

Robert M. Furman has been elected assistant treasurer of the Harvard Business School Club of New York, the alumni group of the Harvard Business School in the New York metropolitan area.

At the annual meeting of the Alumni Association of the Graduate School of Business of Columbia University on April 29 Arthur Michaels was elected a director for a three-year period.



A member of the management services staff of the Chicago Office, Irwin T. David, received The Illinois Society of Certified Public Accountants' Silver Medal for his outstanding performance in the November, 1962 C.P.A. Examination. Mr. W. A. Bleu, vice president of the Society, presents the metal to Ted at the Awards Dinner held March 27th.

Ted graduated from the University of Illinois with honors in June of 1958. He received a Bachelor of Science degree, with a major in Chemistry. In June of 1960, he again graduated with honors, receiving a M.S. in Industrial Administration from Carnegie Institute of Technology. He joined the staff of Touche, Ross, Bailey & Smart in July of 1960, and has continued his studies at the University of Chicago and Northwestern University evening schools, specializing in accounting.

Gregory Boni addressed a meeting in Washington, D. C. before the Financial Management Roundtable sponsored jointly by: The Federal Government Accountants Association, The American Society for Public Administration, The Society for Advancement of Management, Armed Forces Management Association, The Institute of Internal Auditors, Inc., and the American Society of Military Comptrollers.

The host for this meeting was the Institute of Internal Auditors. The subject was "How Practical Are Scientific Management Techniques?" After the talk, Mr. Boni joined a panel moderated by Daniel Borth, Deputy Assistant Secretary (Accounting and Audit), Department of Defense.

On May 2, John Carroll moderated the New York State Society's Workshop meeting with Long Island bankers, sponsored by the Committee on Cooperation with Bankers. The subject was "Fixed Assets, Depreciation and Appraisals."

Edward L. Weinthaler gave a speech on "New Uses of Operations Research" at the Administrative Systems Meeting in Atlanta, Georgia.

Dennis Mulvihill, John Carroll and Robert Arnold participated in a program for the Social Welfare Automatic Data Processing Institute in Albany, New York. Dr. Mulvihill spoke on "Systems Analysis and Design for ADP"; John Carroll spoke on "Special Considerations for the Auditing of ADP Systems" and Robert Arnold spoke

on "Review, Evaluation and Modification of Operating ADP Systems."

Joe Casey gave a talk to the East Bergen-Rockland Chapter of the National Association of Accountants. His topic was "Internal Audit and Statistical Sampling."

Philadelphia — At the PICPA annual meeting held in June at the Bedford Springs Hotel, Mr. Scully was a panel member of the Practitioners' Forum and his topic was "Shall We Merge with a Larger Office?"

Donald E. Visconti and Roger C. Markhus addressed a recent luncheon meeting of the Philadelphia Retail Controllers Association held at Strawbridge & Clothier. They spoke on the effect of the new IRS regulations regarding substantiation of travel and entertainment expenses.

Millard L. Breiden was elected to the Executive Committee of the Philadelphia Chapter of the PICPA. He has been appointed to serve as chairman of the Management Services Committee. As a member of the committee, Mr. Breiden spoke on "Controlling Costs in the Manufacturing Area" at three 1-day seminars held during May in Philadelphia, Pittsburgh and Harrisburg.

Phoenix — On April 15, Ira Osman was chairman of a banquet sponsored by Phoenix Business Education Committee at which Admiral Charles Horne, President of General Dynamics/Pomona was the guest speaker. Two hundred civic, educational and business leaders were in attendance.

Bryan Wright is teaching a course in Federal Income Taxes at Grand Canyon College (Phoenix) this summer.

Pittsburgh — John C. Williams spoke before the North Union High School on April 4 in regard to "Accounting as a Career."

Alan Henderson, William Simpson, and Louis Werbaneth have been participating in the Fund Drive of Station WQED, Metropolitan Pittsburgh Educational Television. The recent cut-off of City funds has placed the full operation of the Station in jeopardy, and this is the reason for the current Fund Drive.

Joseph F. DiMario and Terry Conway acted as substitute teachers of mathematics at local high schools in Pittsburgh, which enabled teachers to attend meetings of the National Council of Teachers of Mathematics.

Louis A. Werbaneth has been nominated vice president and president-elect of the Pittsburgh Chapter of the Pennsylvania Institute of CPAs for the year beginning June 1, 1963. On March 17, he was the guest on Channel 4's "Spotlight on Tomorrow," a meet the press type program. Answering questions posed by a panel of Duquesne University students, Mr. Werbaneth discussed tax revisions, personal taxes, and corporate taxes. "The Revolution in Auditing" was the subject of Mr. Werbaneth's speech before the Credo Club on May 28. He addressed the Northwest Chapter of the National Association of Accountants on this same subject in St. Marys, Pennsylvania. Mr. Werbaneth has also become a member of the Education Committee of the World Trade Council of the Chamber of Commerce of Greater Pittsburgh.

Portland — Stan Gullixson attended, in an advisory capacity, the House Taxation Committee Meeting at the Oregon Legislature during the discussions for the proposed changes in Oregon income tax laws.

Bill Neely conducted a session on the basic functions of management at the opening session of a business management class for small business owners on April 9th. These classes are sponsored jointly by Portland Community College and the Small Business Administration.

Wade Hanson is serving on the Portland Chamber of Commerce Taxation Policy Committee. Mr. Hanson spoke before the Federal Government Accountant's Association on April 17th on the subject of accounting principles inconsistently applied.

Rochester — Edward Sallerson spoke on "Statement Presentation of Investment Credit," at a meeting of the Rochester Chapter, New York State Society of Certified Public Accountants.

St. Louis — Donald Jennings (of our Detroit office) and James Carroll were seminar chairmen when the Management Institute presented an executive seminar on "Finance and Accounting for Non-Financial Executives" on the St. Louis University Campus.

Andrew C. Ries, tax department, appeared on Channel 9 on the income tax television program on March 18 to try to clarify some of the problems that naturally arise at that time of year. With Mr. Ries, on the three man panel, were two former St. Louis TRB&S men — John Niemann and Clyde LeGrande.

Edwin H. Wagner is the chairman of the accountants group for the fund raising for The Greater St. Louis Arts Council.

San Diego — George F. Meitner, member of the Downtown Optimist Club of San Diego, familiarly known and

called "Dutch" by his fellow members, has been appointed to the membership committee of that group.

San Francisco — William Grismer gave a talk in Fresno, California, to the Central Valley Savings & Loan League people on Federal Taxation as it pertains to the savings and loan industry.

The firm conducted a Seminar on Profitability Accounting and Control for the American Management Association in San Francisco the week of April 15 at the Palace Hotel. Mr. Robert G. Stevens, manager, was called upon to assist in putting on this seminar. Those participating from the San Francisco office, in addition to Mr. Stevens, were Alvin E. Wanthal, Theodore E. Wentz, Richard Bodman and Max Sporer from the San Jose office. Special emphasis was placed on food processing and banking.

Milton Gilmore addressed the annual meeting of the Colorado Society of Certified Public Accountants at Colorado Springs on April 25, on the subject of Statement on Auditing Procedure No. 32, "Qualifications and Disclaimers."

Ralph Walters has been elected to the Board of Directors of the San Francisco Chapter of the California Society of Certified Public Accountants.

San Jose — In his capacity as president of the California Society of Certified Public Accountants, Thomas J. Ennis had the opportunity of presenting AICPA president Robert E. Witschey to the members of the Los Angeles chapter of the state society at its meeting at the Rodger Young audiorium, where Mr. Witschey spoke on the three great challenges facing the accounting profession: how to inject economic values into the accounting equations; how to develop greater uniformity of accounting principles; and how to modify accounting data when used for purposes other than income measurement.

On April 11, Felix B. Probandt spoke to the American Association of University Women at Palo Alto. His subject was "Efforts of Latin American Countries to Emulate the European Common Market."

Max F. Sporer made a study of the relocation of the California Society of Certified Public Accountants office in San Francisco. His report recommended that the Society (1) rent additional space to take care of immediate needs; (2) appoint a committee to study long-range objectives including the possibility of a headquarters site on Stanford University grounds, with satellite accounting groups, such as the National Association of Accountants, locating their West Coast headquarters under the same roof. Mr. Sporer's report was greeted with exceptional interest, and his recommendations are being carefully considered by the Society.

Wilbur H. Stevens has been appointed Chairman of the 1964 Annual Meeting Committee of the California Society of Certified Public Accountants. It is expected that the 1964 annual meeting, to be held in Monterey, will attract one of the largest groups ever to attend the annual meeting.

Seattle — Gerald Gorans is chairman of the budget and finance committee of Century 21 Center, Inc., a civic organization devoted to the utilization of the permanent buildings and site of the Seattle World's Fair. He spoke to the auditing class at the University of Washington on March 21, and on April 17 he appeared before a meeting of Seattle bank presidents to explain the financing proposals for the Center.

Guy Pinkerton was one of four panel members who discussed depreciation and bond premium discount at the March 18 meeting of the Puget Sound Chapter of Savings and Loan Controllers.

Durwood Alkire spoke on income tax investment credit at the monthly meeting of the American Trucking Association Accounting Council, Seattle Chapter. "Valuations" was his topic at the estate planning class of the University of Washington Law School on April 2. The Concord Club of Seattle heard him speak on "The Golden Anniversary of the Income Tax" at their April 4 meeting at the Roosevelt Hotel.

Washington — Karney A. Brasfield has devoted a considerable amount of his attention in recent months to financial matters in the United Nations and related international organizations. Mr. Brasfield has been serving the Department of State where he is a member of the Advisory Committee on Management Improvement of International Organizations. The committee was formed to furnish advice on broad questions of U. S. strategy relating to the review and improvement of the administration of United States contributions to the United Nations and other international organizations. Mr. Brasfield gave a talk on "A Profile for Profitable Shopping Center Operations" to the Seventh Institute on the Management and Operation of Shopping Centers. The Institute was sponsored by the International Council of Shopping Centers, Inc., and was held at Michigan State University. Mr. Brasfield joined with George K. Wyman, Commissioner, N. Y. State Department of Social Welfare and Senator Walter J. Mahoney, to open the Institute of

Mechanization of Welfare Functions held at Albany. Mr. Brasfield's opening comments, "Teamwork for a Better Tomorrow," emphasized the need for effective administration to deal with the complexities of present day welfare programs. He also participated recently in a three day financial management institute presented in Dallas by the U. S. Civil Service Commission. His speech was entitled "Integrating Financial Management with General Management."

Tom Hitselberger reviewed the results of the 1962 Shopping Center Study with the Community Builders Council of the Urban Land Institute, at their annual spring meeting in Puerto Rico.

Gerry Polansky has been named alumni advisor to the Kappa Sigma Fraternity at George Washington University. Gerry was a member of the University of Wisconsin chapter.

On February 6 Richard P. McMurray appeared on the program of the National Concrete Masonry Association annual meeting in Dallas. Lincoln B. Frazier, president of the association, Elmer Baurgartner, chairman of the Association's Management Information Committee, and Mr. McMurray presented the association's newly published industry accounting manual to the general membership. Mr. McMurray spoke to the members on the subject, "Product Costs — Their Use in Management Decision." During financial management workshop sessions, Mr. McMurray also participated as a discussion leader.

More New CPA's

New York

Michael P. DeBlasio
Robert A. Maresca
Gerald W. Padwe
Herbert Wender

Rochester

James M. Riley

Quarterly Correspondents

Atlanta, *Martha Martin* • Boston, *Marjorie J. Johnson* • Chicago, *Sherle Swanson* • Cleveland, *Alberta Everett* • Dallas, *Sallie Poole* • Dayton, *Leslie Earley* • Denver, *Beverley Thomas* • Detroit, *Harry G. Troxell* • Executive office, *Florence Tramutola* • Grand Rapids, *Joyce E. Cowman* • Houston, *Jeanie Lannom* • Kansas City, *Genevieve Silady* • Los Angeles, *Jay Liechty* • Memphis, *Ann Agee* • Milwaukee, *Mayme Solberg* • Minneapolis, *Alice Carlson* • New York, *Nancy McEwen* • Philadelphia, *Betty Gillard* • Phoenix, *Ira Osman* • Pittsburgh, *Mary Jo Reinbold* • Portland, *Davison Castles* • Rochester, *Marion Snyder* • St. Louis, *Lillian Meyer* • San Diego, *Wilhelmine C. Livingston* • San Francisco, *Vilma Jenson* • San Jose, *Scotty Barton* • Seattle, *Helen B. Lilly* • Washington & Baltimore, *Jean Colp*